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FINANCIAL TIMES

Europe's Business Newspaper | MONDAY NOVEMBER 21 1994 | D8523A

Optimism over new drugs treatment for Aids patients

A combination of two Aids drugs, Glaxo's new 3TC and Wellcome's established AZT, has the strongest and most prolonged clinical effect of any treatment yet tested, first results of clinical trials show. The mixture of drugs cut virus levels in blood cells by 99 per cent after a year, compared with an 11 per cent reduction over six months using AZT alone. The results are so encouraging Glaxo has decided to continue developing 3TC itself rather than licensing it to Wellcome. Page 16

Coalition pressed to resolve Irish crisis: Ireland's outgoing coalition partners are under growing pressure to find a speedy resolution to the country's political crisis. The Dail, Ireland's parliament, meets tomorrow to try to agree a new government. Page 16; Irish wait to see which way Spring jumps, Page 2; Fear of IRA split is rejected, Page 6

Kemper and Conseco drop merger plan: A $2.4bn merger between US financial services groups Kemper and Conseco has been abandoned, opening the door to other suitors, including GE Capital and Dean Witter Discover, who have also expressed interest in Kemper. Page 17

Fears remain despite Angola accord: Prospects for peace in Angola remained uncertain despite the signing of an agreement to end the country's 19-year civil war. Page 16

BZW seeks stronger US presence: BZW, the investment banking arm of Barclays, has started a review of its business in the US that could lead to the bank entering a partnership with, or acquiring, a US investment bank. Page 17

Ukraine seeks aid to shut Chernobyl plant: Ukraine is to seek western financing to decommission the Chernobyl nuclear power station, the site in 1986 of the world's worst nuclear accident. Page 3

Republicans close to deal on trade pact: Senator Robert Dole, Republican leader in the US Senate, said he was close to a deal with the administration on passage of the Uruguay Round implementing legislation this year. Page 4

EU to monitor Tokyo-US trade: The European Union will monitor the implementation of US-Japanese trade accords to ensure they do not unfairly exclude third countries, an EU-Japan ministerial meeting agreed. Page 4

Financial stability is Russian priority: Russian first deputy prime minister Anatoly Chubais said the country was entering a new phase of economic development with a strong government team in place to reduce inflation, encourage investment and achieve financial stability. Page 3

European manufacturers 'outclassed': Only one in 50 European manufacturers is "world class", yet three out of four believe they can compete with the best of their international rivals, according to a four-country survey. Page 2

Bank warns on interest rates: British interest rates must be raised if the UK economy continues to expand at the current speed, Bank of England governor Eddie George warned. Page 6

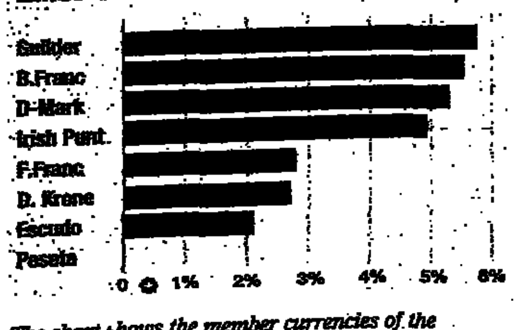
Lloyd's faces legal challenge: Groups representing loss-making Lloyd's of London members have combined to finance a legal challenge to the insurance market's latest attempt at recouping money owed by the members. Page 6

SCA lifts forecast: SCA, Sweden's second largest forestry group, raised its 1994 profits forecast after doubling profits to SKr1.59bn ($217m) in the first nine months. Page 19

UN holds conference on crime: Ministers and officials from more than 120 countries meet under tight security in Naples today for a three-day United Nations conference on international crime. Faceless *crime* boss who is all too real, Page 10

European Monetary System: The French franc moved ahead of the Danish krone in the EMS grid last week, but the spread between the strongest and weakest currencies remained broadly unaltered. The grid is likely to be affected if the Bundesbank council decides on Thursday to shift German interest rates. Currencies, Page 25

EMS: Grid November 18, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Labour attacks government's wine bill: Britain's opposition Labour party accused ministers of having an "obscene sense of priorities" after disclosing that the government has spent more than £570,000 ($935,000) on wine for official gatherings in the last five years. Page 6

Lottery winners sought: Camelot, the consortium organising Britain's National Lottery, was waiting for two of the seven first-prize winners in the first contest to claim their share of the £5.8m ($9.5m) jackpot. Page 6

Bosnia's Moslem-led government demands air strikes as warfare intensifies in north

UN force on high alert as Serbs near safe area

By Bruce Clark on board HMS Invincible, Laura Silber in Belgrade and Nancy Dunne in Washington

Royal Navy welcomes wider Bosnia role ....Page 3

The 40,000-strong United Nations force in former Yugoslavia was placed on high alert last night as intensifying warfare in northern Bosnia left the peacekeepers vulnerable to assault from both Serbs and Moslems.

The Moslem-led Bosnian government angrily demanded that the UN follow up its new resolution and authorise air strikes against Serb forces advancing on the Moslem enclave of Bihac.

Mr Haris Silajdzic, Bosnian prime minister, said that despite an emergency meeting of the UN Security Council on Saturday, Serb tanks were moving towards Bihac yesterday. "The concrete action would be to take out these tanks – serious air strikes."

On Saturday night the Security Council passed an emergency resolution authorising Nato aircraft to extend their role as policemen of the skies to the Serb-controlled areas of Croatia, after Serb aircraft based in Croatia made two air raids on the Bihac area in two days. An aircraft in the second attack crashed into an apartment block in the town of Cazin, near Bihac, killing the pilot and wounding at least nine people.

Mr Willy Claes, Nato secretary-general, indicated on CNN television that the alliance was waiting only for a request from the UN but stressed that "we are ready to intervene not only politically but militarily ... we are ready to give a very clear and strong signal to Serbs that this is enough and it must stop".

In the US, Senator Robert Dole, the Republican leader in Congress, expressed frustration with the UN's role: "The UN should get off Nato's back and let Nato take care of Serbian aggression." He would visit Nato headquarters next week "and tell them I don't see any reason for their existence if they have to take orders from the UN".

The Security Council resolution was welcomed by a senior British naval officer who is overseeing air policing activities in the Adriatic. Captain Richard Hastilow, commander of the Royal Navy aircraft carrier HMS Invincible, said the new policy was intended to stop hostile aircraft leaving the ground in the Serb-controlled areas of Croatia.

The worsening situation around Bihac has presented the UN with one of its toughest challenges since it became involved in peacekeeping in former Yugoslavia in 1992. Draconian action against the Serbs would leave peacekeepers vulnerable to retaliation in many parts of Bosnia, while the UN's failure to protect Bihac was incurring the anger of local Moslems.

Reports from Bihac said local people were attacking the vehicles belonging to the 1,000-strong contingent of lightly-armed UN soldiers from Bangladesh, whose stocks of food and medicine have run very low.

Fighters loyal to the maverick Moslem leader Mr Fikret Abdic, who opposes the Bosnian government, were engaged yesterday in heavy house-to-house fighting in the town of Velika Kladusa, north of Bihac. However, a UN spokesman said the Bosnian Serb army seemed to be respecting the borders of the UN-designated safe area around Bihac.

On guard: British troops point their weapons towards Serb-held positions during a patrol in Sarajevo's notorious 'snipers' alley' Picture: Reuter

VW board concerned at tension over Piëch

By Christopher Parkes in Frankfurt

Mr Ferdinand Piëch, Volkswagen chairman, will be told to tone down his public statements at a meeting with senior members of the automotive group's supervisory board this week.

Anxiety about Mr Piëch's aggression was initially roused by a recent outburst in an interview in which he accused his middle management of cowardice and conspiring against him.

It was exacerbated at the weekend by the publication of extracts from a letter accusing Mr Piëch of being a dictator.

The letter, unsigned and purportedly from a group of middle managers, was sent to Mr Klaus Liesen, chairman of the supervisory board, Mr Gerhard Schröder, prime minister of VW's home state, Lower Saxony, and Mr Klaus Zwickel, leader of the IG Metall trade union.

All are members of the supervisory board's powerful praesidium, which is due to meet Mr Piëch on Thursday, a day before a full supervisory board session.

The letter warned Dr Liesen not to be misled by the apparent recovery at VW. "Make plain to Mr Piëch that a global concern cannot by run like a feudal fiefdom manned by serfs," it said.

The signs of tension at VW have also revived debate among non-executive supervisory directors on the possible need for a "shadow cabinet", or substitute top management, which could step in if Mr Piëch does not stay for his full five-year contract.

The proposal was first floated last year during the still-unresolved industrial espionage allegations against VW's eccentric purchasing director, Mr José Ignacio López de Arriortúa.

While the supervisory board is eager to avoid open conflicts with management which could put VW's recovery at risk, it is also concerned that Mr Piëch's confrontational style is damaging the group's image. Its

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Skoda plan revised, Page 19

EU to monitor Japanese trade accords with US

Attempt to ensure Europe not excluded from deals

By William Dawkins in Tokyo

The European Union is to monitor the implementation of US-Japanese trade accords to ensure they conform with multilateral trading rules and do not unfairly exclude third countries.

The move was agreed at an annual EU-Japan ministerial meeting in Tokyo over the weekend. At the same time, the European Commission said that Brussels hoped to see Japan's current account surplus fall from last year's 3.1 per cent of gross domestic product to 2 per cent by 1996. Mr Masayoshi Takemura, the finance minister, said the figure was reasonable, but Japan could not accept a date.

Sir Leon Brittan, leader of the three-commissioner negotiating team and European commissioner for external economic relations and trade, stressed that the EU was not seeking a firm target for reduction of the surplus, in line with its continuing aversion to the US strategy of seeking to pin Tokyo to precise figures on opening its markets.

It was simply an expectation based on the Japanese government's economic policies, Sir Leon said. "We have made progress on many items," he added, referring to a series of largely technical market-opening measures announced by the Japanese government at the weekend.

Page 4
■ Small steps forward for European exporters

The meeting emphasises the EU's growing anxiety to ensure that European businesses are not cut out of trade deals negotiated by the US in the 18-month old economic framework talks between Tokyo and Washington. These cover a wide range of sectors that include prominent European competitors, including cars and car parts, telecommunications and financial services.

The EU, for its part, was not seeking concessions for European business to the exclusion of others, but felt certain it could increase its share of the Japanese market "given the proper opportunities", said Sir Leon.

Mr Yohei Kono, the foreign minister, assured Sir Leon that Japanese trade accords with the US would automatically be extended to other trade partners. Sir Leon feared that Japanese private sector companies might, despite this, still feel under political pressure to buy US cellular telephones, aircraft and car parts, rather than equally competitive European ones.

However, Japan declined the Commission's request to monitor jointly the implementation of trade deals with the US. Tokyo and Brussels will monitor US-Japan trade in parallel, with the Japanese government keeping the Commission informed of progress in its US trade talks.

The EU had no plans to revive its failed attempt to launch trilateral trade talks with the US and Japan, said Sir Leon. The weekend ministerial meeting had shown it was possible to make progress under present arrangements, he said.

Saudi Arabia seeks to extend oil curbs

By Robert Corzine in Bali

Saudi Arabia will today ask the Organisation of Petroleum Exporting Countries to extend the current production ceiling until the end of 1995 in order to bolster oil prices.

A one-year rollover of the 24.52m barrel a day ceiling would be a sharp departure from Opec's policy in recent years of trying to balance world supply and demand through frequent changes in output.

Analysts say it would also give a signal to world oil markets that Saudi Arabia, Opec's largest producer and the only one with large spare capacity, is prepared to forgo possible volume increases next year in favour of a strategy that, if successful, could deliver higher prices.

Other Opec ministers meeting in the Indonesian resort of Bali also favour a rollover. But it is not certain that all accept the need for such a long extension.

Iran, one of Opec's persistent price hawks, said yesterday that it would consider all options. Mr Gholamreza Aghazadeh, oil minister, said he would look at all rollover proposals, whether they were for "12, six or three months."

Iran had been thought to favour a three-month extension. But some Gulf Arab officials yesterday described it as unacceptable because it would have little market credibility.

Saudi Arabia, however, might accept a six-month rollover if the one-year proposal runs into stiff opposition. Saudi officials had been publicly advocating the six-month option as late as last week.

But some analysts believe current oil prices already discount a six-month extension. They claim that a one-year rollover would send a strong bullish signal to world oil markets in the short term.

But the strategy assumes that non-Opec producers would not be able to increase output quickly to meet the full 1m b/d increase in world demand expected next year. Over the past year a surge in non-Opec production, especially from Norway and the UK, has been more than adequate to meet rising demand.

The Saudi plan also assumes that quota cheating by Opec states will remain at relatively modest levels.

One Opec delegate said the Saudi strategy was not meant to produce a sharp jump in oil prices next year. "I can't see Brent going above $23 a barrel," he said – the benchmark Brent Blend currently stands at about $16.50. Instead, it is meant to put pressure on minimum prices, and to reduce frequent price swings.

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils525	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (mainland)	Es225	Turkey	L30000
Germany	DM3.60	Lux	LFr65			UAE	Dh12.00

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John Murray Brown assesses the tough choices facing the Labour leader

Irish wait to see which way Spring jumps

Spring: three options

As Ireland's political parties try to patch together a new coalition government in the wake of the last week's crisis, all eyes are on Dick Spring, the Labour leader and outgoing deputy prime minister and foreign minister.

The choice of coalition is largely Mr Spring's, in many ways the principal actor in last week's drama, which resulted in the collapse of the 22-month coalition and the resignation of Mr Albert Reynolds as prime minister.

He has three options. He can go back into coalition with Fianna Fail under its new leader, Mr Bertie Ahern – the unanimous choice of the party on Saturday. Labour and the conservative Fine Gael, the main opposition party could put together a government with one or both of the smaller opposition parties (the Democratic Left or the Progressive Democrats) although this would produce a paper thin majority in the 166-seat parliament. The third option is to go to the country, and seek a new mandate.

Overriding all this is another concern: that a protracted search for a new government could damage the Northern Ireland peace process.

A poll in yesterday's Irish Independent suggests Mr Spring is the main beneficiary of last week's turmoil. Confidence in his performance is at an all-time high of 69 per cent. His party's standing is at 19 per cent. If he heeds the results, a Fianna Fail coalition seems inevitable: 43 per cent are in favour, while, perhaps more significantly, only 27 per cent want a general election.

Returning last night after a weekend in his North Kerry constituency, Mr Spring may well have reflected that he has been here before. In 1992, his rating and his party's was also on a high. Even his parliamentary speeches – attacking Fianna Fail in a no confidence motion in November 1992 – have an uncanny resemblance to last week's assault. And yet just two months later, in January 1993, Labour was in coalition with Fianna Fail, for the first time in the history of either.

How different is it this time? Mr Ahern is from the left wing of the party. Indeed, as a former trade union negotiator, he earned a reputation as an effective conciliator. Mr Ahern is also said to have a special relationship with Labour's Mr Ruairi Quinn, who as employment and enterprise minister was a key architect, with Mr Ahern, of the government policy programme under the outgoing administration.

Mr Ahern is described as a Fianna Fail moderate. On social and moral issues, some commentators believe he may be closer to Labour than his party's mainstream. In Ireland, much has been made of the openness with which he has discussed the breakdown of his marriage. However, in his acceptance speech after winning the party nomination on Saturday, he promised social reform "that takes account of our distinctive values and convictions." - a remark which seemed to be aimed more at Fianna Fail traditionalists than designed to court his possible coalition partner.

A coalition with Fianna Fail would have some supporters within Labour's parliamentary party, anxious to avoid an election and confident in the carve-up of cabinet jobs that Labour could dictate the terms to a cowed Fianna Fail leadership. Labour party managers will be only too aware that yesterday's poll, although showing increased support for Labour, actually only restores the position the party enjoyed prior to the 1992 election.

Labour was bitterly criticised for betraying grassroots support. Indeed, the party's strong showing in the 1992 election, where it secured 33 seats, was largely because the voters believed they were voting Labour to root Fianna Fail out of power. At grassroots level, Mr Ahern, who was present at the cabinet meeting on Monday, is just as culpable as Mr Reynolds in misleading parliament over the paedophile priest extradition case.

Mr Jim Kemmy, Labour's chairman and an astute judge of grassroots mood, made it clear over the weekend he opposed another deal with Fianna Fail.

Given Mr Spring's personal difficulties with Mr John Bruton, the Fine Gael leader, that alternative would be difficult to imagine. Moreover, Labour party managers will be aware that with three or more parties in coalition, Mr Spring would have difficulty arguing for as many the six cabinet portfolios which the party held in the outgoing administration.

If both options are ruled out, then the only alternative will be a general election. It all rests with Mr Spring.

See Editorial Comment

Socialists say Delors has duty to run

By David Buchan in Liévin

The French Socialist party yesterday told Mr Jacques Delors, outgoing head of the European Commission, that he had a "duty" to run for the presidency in its colours.

Picking up Mr Delors's statement last week, that if he decided to become a candidate it would be out of duty, Mr Henri Emmanuelli, the party's first secretary, said: "In the name of the very great majority of Socialists, I say to you, Jacques, that it is your duty."

This appeal brought prolonged applause from the 4,000 Socialist delegates and militants at the party's national congress which concluded yesterday. The relative strength of the Delors-for-president camp within the party probably approximates to the 87.5 per cent of delegates who earlier yesterday voted for Mr Emmanuelli as first secretary.

Since Mr Emmanuelli faced no rival for the post to which he was nominated last July in succession to Mr Michel Rocard, the 12.5 per cent vote against him came largely from those who regard Mr Delors as too much a man of the centre.

The possibility of a Delors presidential candidacy, partially reviving Socialist hopes shattered in recent legislative elections, gave the congress a rare degree of harmony.

Adding to the aura of reconciliation, President François Mitterrand came to the former mining town of Liévin on Saturday to commemorate a colliery disaster of 20 years ago, to make his peace with a party from which he has seemed increasingly distant in recent years, and to stiffen its resolve to keep the Elysée palace in Socialist hands.

Mr Emmanuelli reminded delegates that Mr Delors "has been one of us for more than 20 years and many of us were members of the same government" when Mr Delors was finance minister in 1981-84.

The reality is that the Socialist party, winning only 14.5 per cent of the vote in last June's European parliament elections under Mr Rocard's leadership, is virtually at the beck and call of Mr Delors, whose opinion poll rating is far higher. But Mr Emmanuelli promised delegates that the party would go through the form of approving its presidential candidate and platform, at a further convention probably in January.

Mr Emmanuelli made no apology for "swinging the party to the left". He called for France's 39-hour working week to be reduced progressively to 35 hours without any comparable reduction in basic pay, not as a miracle cure for unemployment but for a fairer division of effort and wealth. He also said it was time for Socialists, particularly those in the European parliament, to break their working consensus with Christian Democrats which was alienating left- and right-wing voters from Europe.

He admitted "some differences" on these points with Mr Delors, who has warned against Europe harming its competitiveness by reducing work but not rewards, and who has always valued the role played in European integration by consensus-minded Christian Democrats. But there was no sense in the left playing up its differences.

The first secretary clearly indicated his view that the Socialist party's role would be to anchor the left for Mr Delors, who would be free to reach out to the centre.

Mr François Hollande, a former Socialist deputy who runs Mr Delors's Témoins political discussion club in France, said he did not think Mr Emmanuelli's public appeal would greatly influence the Commission president's decision. "This turns on personal factors, and on developments on the right as much as on the left."

Polls test adds to pressure on Italian coalition

By Andrew Hill in Milan

The fractious Italian government of Mr Silvio Berlusconi yesterday faced its first electoral test since June, at the end of a week of political turmoil and social unrest.

Italians in more than 200 towns and regions across Italy voted in local and regional elections, the first poll since the June elections to the European parliament in which Mr Berlusconi's Forza Italia movement increased its share of the national vote at the expense of the other main parties.

Within the last week, Mr Berlusconi has had to contend with anti-government demonstrations across the country, starting with a rally of more than 1.2m people in Rome on November 12 against plans for pension and welfare cuts.

A combination of tension within the coalition government and protest on the streets was expected to hit support for Forza Italia in the mayoral elections. However, the official results – due today – will be difficult to interpret because of complicated local alliances, which in some cases pitted candidates from the national coalition parties against one another.

In any case, Mr Berlusconi is likely to be more concerned about the passage of the crucial 1995 budget through parliament, and Thursday's meeting with trade union leaders at which the government will try to avert Italy's second general strike this autumn, scheduled for December 2.

The government was defeated in the lower chamber of parliament last Thursday, when the populist Northern League – one of three main coalition parties – allied with opposition deputies to approve amendments watering down reform of the overburdened pensions system. The chamber of deputies is likely to approve the overall package of measures today.

Closer co-operation between the League and, for example, the opposition Popular party could make it easier for the government to push through the budget package in the upper house, where it does not have a majority. Financial markets reacted positively on Friday, as investors looked forward to the possibility of agreement with the unions, albeit on a less stringent budget.

Mr Sergio Cofferati, leader of the CGIL – one of three main trade union federations – yesterday warned that it was premature to suggest that the general strike might now be called off.

However, he agreed that "the certainty of reform and the commitment of the whole parliament and the social partners to it would be a reassuring signal for the markets".

Mr Berlusconi will still have to resolve tensions between his coalition partners, even if he reached a truce with his opponents on the budget.

The Italian treasury has cleared the way for publicly owned charitable foundations to give up majority control of many of Italy's banks, in an attempt to encourage further modernisation of the fragmented banking sector, writes Andrew Hill. Mr Lamberto Dini, treasury minister, has approved a directive which obliges the foundations to find new ways of funding their charitable activities over the next five years. It will also provide fiscal incentives for the foundations to "privatise" their banking subsidiaries by selling off more than 50 per cent of the shares. Following the 1990 reforms, banking subsidiaries could be transformed into joint stock companies but foundations had to retain a controlling stake.

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Oslo rally shows No camp's strength

By Karen Fossli in Oslo

Opponents of Norwegian membership of the European Union yesterday organised a rally of 25,000 people in Oslo, one of the country's largest ever political demonstrations.

"This shows the strength of the No side – people came from all over the country. If this support continues next week, we will win," said Mrs Anne Enger Lahnstein, head of the main opposition Centre party and leader of the No campaign.

Norway holds its national referendum on joining the Union next Monday. The No campaign, nervous that recent approval by neighbouring Finland and Sweden could help swing opinion in Norway, has been encouraged by waning support for EU membership following an earlier spurt after the Swedish Yes vote on November.

Opinion polls at the weekend gave the No side 54 per cent compared to 46 per cent for the pro-EU campaign, after eliminating undecided voters, who still account for around 12 per cent of the electorate. This contrasted with a surge of 5-6 percentage points by the Yes camp early last week.

Police estimated that 20,000-25,000 people attended the rally. Demonstrators carried signs which read "Yes to Democracy, No to the EU". The organisers chartered 300 buses and four trains to bring people from as far away as Finnmark in northern Norway.

The No movement has also fielded seven prominent Norwegians opposed to EU membership. They included Mr Jens Heyerdahl, president and chief executive of Orkla, one of Norway's top five listed companies, which produces a wide-range of consumer goods and which is one of the country's biggest employers.

Most senior business and industrial figures are strongly backing EU membership, saying it will benefit Norwegian companies. But Mr Heyerdahl said that competition from outside would damage local manufacturers and cost jobs.

● Finland's parliament finally ratified the October 16 referendum result in favour of EU membership at a session on Friday. The vote had been delayed by anti-EU members until after Sweden had voted in the hope that Swedish rejection would help them block Finnish accession. But the two-thirds majority required for ratification was easily achieved.

A piece of hot whale meat sustains an opponent of European Union membership after his arrival by bus from northern Norway for a rally in the capital at the weekend. The poster over the stand says "Yes to fish – No to EU". The demonstration by some 25,000 people was one of the country's largest ever AP

German ruling saps Rexrodt's energy

Minister's campaign for deregulation of the EU sector has been undermined by last week's federal court decision, writes Judy Dempsey in Bonn

Germany's economics minister, Mr Günter Rexrodt, will require more than skill this week when he tries once again to persuade his European Union colleagues to introduce measures aimed at deregulating the EU's energy sector.

Only with Britain has he been unable to reach agreement about third party access (TPA), which would allow outsiders access to the national energy grids in Europe. He has not even been unable to muster support at home as last week's decision by Germany's highest federal court, confirmed.

The court ruled that Wintershall, the gas subsidiary of BASF, Germany's largest chemical group, does not have the right of TPA to the gas grid in eastern Germany. The east's gas transmission system is monopolised by Verbundnetz Gas (VNG). The shares of this former state-owned company were distributed by the Treuhand privatisation agency in 1990, giving 35 per cent to Ruhrgas, western Germany's largest gas distributor.

In practice, Ruhrgas enjoys a majority position because its allies, including BEB, another gas company, and the east German municipalities, together hold an additional 25 per cent plus one share. Wintershall has 15 per cent plus one share and Gazprom, the Russian state-owned gas company, 5 per cent.

Although the court is not expected to explain its decision until next month – the issue has highlighted a bizarre situation in which Mr Rexrodt is pushing for deregulation of the energy sector in the EU, while being undermined at home by divisions about TPA.

Frustration is growing among eastern and western German enterprises which want cheaper energy. "I don't understand what the fuss is all about," said Mr Volkmer Porezag, a senior technician at the Foto und Spezialisierungspapierfabrik, a company located in Weissborn, south-west of Dresden, and the source of the dispute between Wintershall and VNG. "All we wanted was cheaper energy. And we wanted a choice."

The enterprise employs 230 people and provides paper to the photographic industry. In 1991, its management had expected, as in the past, to sign a contract for gas supply from Erdgas Südsachsen (ESG), the regional distributor – until, that is, it was approached by Wintershall.

Frustration is growing among German enterprises which want cheaper energy

"We were trying to enter the eastern German market at the time," said Mr Henning Storek, Wintershall's spokesman. "We wanted to supply this paper factory with gas. It was uneconomic to build a special pipeline which would link it to our own lines. So we applied for permission – Third Party Access – to supply our gas through Erdgas Südsachsen."

However, VNG distributes gas to the regional gas companies, which in turn supply the local councils, or Stadtwerke. So when Wintershall applied for access to the gas grid, VNG refused.

The west German company complained to the federal cartel office that VNG was preventing competition, and in June 1992, the office came out in favour of TPA. Appeal and counter-appeal followed culminating in the federal court's decision against Wintershall.

"we do not know yet if this court ruling is a one-off individual case decision, or whether it has actually ruled against the principle of TPA," said Mr Martin Weyand, an energy expert at Germany's Association of the Gas and Water Industry (BGW). Either way, energy and industry groups are fundamentally divided on the issue.

BASF/Wintershall believes that if the large German utilities are not prepared to open up the gas and electricity grids and offer cheaper energy, then it will go it alone. Wintershall is already investing DM4bn (£1.6bn) in building gas pipelines across east Germany.

Mr Rexrodt also has the support of the Verband der Industriellen Energie und Kraftwirtschaft, an industrial association of energy users, hardly surprising since BASF currently heads the organisation. In addition, a recent VIK paper concluded that "electricity and gas prices for industry in Germany are between 30 and 40 per cent, and in some extreme cases, 100 per cent higher than in other European countries".

However, the powerful Verband kommunaler Unternehmen, the association of municipal enterprises, want nothing to do with TPA. Under current legislation, a municipality has exclusive right to issue a concession contract to a utility to supply the city. If TPA were introduced, annual revenues of about DM5bn earned from these concessionary rights would be reduced.

However, Mr Rexrodt's deregulation plans would at least allow the municipalities to choose which utility companies they want to supply their customers. But the VDWE, the association in which Germany's large utility companies are grouped, does not want to lose its monopolistic position allowing the companies to carve out their areas of supply.

The BGW, for its part, opposes deregulation on the grounds that Mr Rexrodt has failed to make provision to compensate those who invested in building the energy grids in the first place, or to define the ownership of these grids.

"The real problem facing Rexrodt is that he has failed at home to establish a political basis and a consensus for his deregulation plans," a BGW official said. "He is lobbying in Brussels without domestic support."

European factories 'outclassed'

By Andrew Baxter

Only one in 50 European manufacturers are genuinely "world class" – yet three out of four believe they can compete with the best of their international rivals, according to a four-country survey published today.

The apparent gap between companies' perceptions of their competitiveness and the reality is revealed in "Made in Europe" by Mr Philip Hanson of IBM Consulting Group and Professor Chris Voss of London Business School. Their study of more than 650 factories in Finland, German, the Netherlands and Britain is billed as the largest and most comprehensive of manufacturing practice and performance in northern Europe.

The findings have important implications for manufacturers. "The best in Europe is equal to the best in the world," says Prof Voss. "But the challenge for Europe is to bring all companies up to this standard. In too many companies and sectors in all countries, inertia and complacency are the main enemies, but there are also success stories."

Germany, the Netherlands and Britain have similar numbers of world class manufacturers, but overall, the UK comes bottom of the four in both practice and performance. This is because it has a much longer "tail" of poorly performing companies, depressing its overall position.

Using a strongly Japanese-influenced model developed by London Business School, the study found just 14 of the 663 sites were world class, as measured by qualities ranging from executive vision to effective use of "lean" production techniques and manufacturing systems.

The performance is disappointing, say the authors. However, 46 per cent of the factories came in the next best category, and, with determination, could become world class.

Throughout the four countries, the self-opinion of international competitiveness runs well ahead of evidence of world class best practice, says the study. And those close to being world class were much more realistic than less advanced companies. There was also clear evidence in all the countries that foreign-owned companies – especially Japanese-owned – outperformed domestically-owned ones in almost every area of practice and performance.

Among the big surprises was the performance of companies in former East Germany. Restructured under new owners, far more sites than expected were moving towards world class status.

Made in Europe - a Four Nations Best Practice Study. Available from Matthew Edwards at IBM on (UK) 0181 575 7700. £99

Socialists say Delors has duty to run

By David Buchan in Lyons

Chubais spells out new phase of development

Financial stability 'Russia's priority'

By John Thornhill in Moscow

Mr Anatoly Chubais, Russia's newly-appointed first deputy prime minister, yesterday said the country was entering a new phase of economic development with a strong government team in place to reduce inflation, encourage investment and achieve financial stability.

Mr Chubais said: "The explicit instruction of President Yeltsin is that 1995 should be the new stage of Russian economic reform and that we have to reach the goal that was not reached by the reformers since the end of 1991 ... Privatisation has been achieved. Stabilisation is not yet achieved."

Mr Chubais, the former privatisation minister who has now emerged as the standard bearer of liberal economic reforms, said both President Boris Yeltsin and Mr Viktor Chernomyrdin, the prime minister, were committed to the 1995 budget, which aims to bring down the monthly inflation rate to 1-2 per cent by the year-end.

"It seems to me that until now the personal role of Prime Minister Chernomyrdin, his fundamental change of Russian economic policies is still underestimated and misunderstood in the west. His role is crucial and extremely important. Now we have the strong support of Chernomyrdin and of Yeltsin," he said.

Chubais: IMF support crucial

Mr Chubais said support from the International Monetary Fund would be "crucial" if stabilisation was to work and said he was prepared to change some budget details to respond to its concerns.

However, Mr Chubais foresaw a fight with the Duma [the lower house of parliament] to enact the budget and accepted the need for compromise. "We could discuss the structure of the government expenditure. We could discuss the sources of the non-inflationary way of covering the deficit of the budget. But I will not accept changes of principle to the budget," he said.

The government would not waiver over its commitments to reduce inflation to its set targets and to refrain from issuing any central bank credits to fund the budget deficit and from contemplating any rise in government spending on the military and agricultural sectors.

The government would also attach a high priority to encouraging greater domestic and foreign investment, Mr Chubais said. "The main thing which should be done is first financial stabilisation. People will never invest if they have 15 per cent per month inflation. And the second also fundamental task is to reform the Russian security market infrastructure," he said.

Mr Chubais said the Russia's domestic savings had increased from Rbs5 trillion [thousand billion] in January to Rbs15 trillion in July. "The population is ready to invest but has no ideas what is the reasonable way to invest. That is why they are using MMM. But I would like them to invest not in MMM but in the small machine building factory in Kaluga," he said.

Mr Chubais also met with western business leaders yesterday to discuss ways of encouraging foreign investment. The meeting discussed ways of introducing a more predictable and stable tax regime and of promoting Russia's access to international markets.

Kuchma to discuss Chernobyl closure

By Matthew Kaminski in Kiev

Ukraine will present a new plan to shut down the Chernobyl nuclear power station during President Leonid Kuchma's summit in Washington this week, senior Ukrainian government officials said at the weekend.

Ukraine will seek western financing of \$1.49bn (£90m) to decommission the plant, \$2bn to finish work on three Soviet-era reactors elsewhere in the country and \$3bn to build two western-type units near the Chernobyl site, they said.

In turn, Ukraine would cover up to \$6bn in other costs associated with shutting down Chernobyl – site in 1986 of the world's worst nuclear accident - including constructing a new sarcophagus to encase the damaged fourth reactor, according to Mr Mikhail Umanets, head of Ukraine's nuclear power authority.

The proposal, on its face, falls short of conditions sought by the Group of Seven leading industrialised countries this summer. Ukraine does not agree immediately to close one of the two operating reactors at Chernobyl and does not set a timetable.

The Chernobyl reactors can be closed only once the western-style plant is built, Ukrainian officials said. Work on restarting a third Chernobyl reactor, badly damaged by fire in 1991, continues.

"After ratifying [the nuclear Non-Proliferation Treaty last week], we want the west to endorse this course," said Mr Umanets, citing a deal the US and Japan struck with North Korea earlier this year to build new plants. "A better option is hard to find".

Mr Dmytro Tabachnyk, head of the president's administration, appealed for support – especially from the EU – and pointed to Ukrainian willingness to meet western states halfway.

Ukraine's government this month approved an energy sector overhaul drawn up with World Bank help. The steps, including electricity price increases for industry and household consumers, are aimed at more efficient energy use and lessened dependence on Russian and Turkmen imports.

The EU states, led by Germany and France, have sought Chernobyl's closure after Ukraine's parliament last year voted to keep it open and the government last February secretly decided to restart work on the third fire-damaged reactor.

At the Naples summit this summer, the Group of Seven leading industrial nations pledged \$200m in initial grants for shutdown if Ukraine accepted its action plan. The EU, viewing Chernobyl as of paramount concern, also offered \$480m in loans and \$115m in grant aid at the Corfu summit this summer. Additional support would come from the European Bank for Reconstruction and Development and the World Bank.

Ukraine's government, after committing itself to eventual shutdown in April, dismissed the aid as insufficient.

The US has worked to bridge differences.

Mr William White, the US deputy secretary of energy, last week hinted at a breakthrough in Washington. "Stay tuned," he said. "The energy sector and Chernobyl in particular will be a big part of the summit agenda".

UK Navy welcomes wider Bosnia role

Bruce Clark gets a taste of the gruelling schedule aboard HMS Invincible

Fighter pilots on the Invincible, the British Navy's 20,000 tonne aircraft carrier on patrol in the Adriatic yesterday added a strip of Serb-held territory in Croatia to their potential theatre of operations after receiving instructions from Nato.

Capt Richard Hastilow, the ship's commander, welcomed the prospect of playing a wider role in the policing the skies over the embattled north Bosnian enclave of Bihac. The captain hoped it would be possible to deter Serb aircraft from making further air attacks on Bihac from Croatian territory.

As the crisis in Bihac has unfolded over the last few days, the rise in adrenalin levels among the 1,200-strong crew of the Invincible has been perceptible but not dramatic, perhaps because they are already working so near the limits of their capacity.

Ever since the carrier was deployed in the Adriatic three months ago, its nine fighter pilots have been committed to a gruelling work schedule, with pairs of Sea Harrier aircraft policing the Bosnian skies every few hours.

Engineers work eight hours on, eight hours off to maintain the Sea Harriers and Sea King helicopters. In the rare moments when there are no duties over Bosnia, pilots and seamen test one another's skills by staging mock battles in which Harriers swoop towards the ship, and the crew go through the motions of defending themselves by unleashing Sea Dart missiles.

Their tasks, routinely assigned by Nato, include enforcing the no-fly zone over Bosnia – which could mean shooting down any aircraft which refuses to leave - preparing for possible air raids in support of UN ground troops, and old fashioned aerial reconnaissance.

Aircraft based on the Invincible also play some part in enforcing the arms embargo against the former Yugoslav republics; and officers on board are confident that the ban on arms deliveries to Bosnia can still be enforced, despite the recent change of US policy.

The US is continuing to provide its allies with basic information against sea traffic in the Adriatic, although its own ships will not stop arms going to Bosnia if they find any. Both the Invincible and the Sea Harriers were designed for very different roles in cold war times. The carrier was intended for air defence in the Atlantic, with its helicopters engaging in anti-submarine warfare and early warning tasks. But the carrier has adapted well to the newly discovered art of "off-shore peace-keeping."

The tactics of Gen Sir Michael Rose, the British army officer who is head of UN ground forces in Bosnia – and his insistence is on making only sparing use of air power – are very well understood on board the Invincible. "We are not gung-ho about this," says Capt Hastilow.

Thanks to a continuous exchange of liaison officers between land and shore, the peace-keeping doctrine evolved by British forces in Bosnia – which favours consensus over constraint, wherever possible – is as staunchly professed by seamen and pilots as it is by ground troops.

To use one of the favourite metaphors of Gen Rose, soldiers sailors and airmen are "singing from the same hymn sheet".

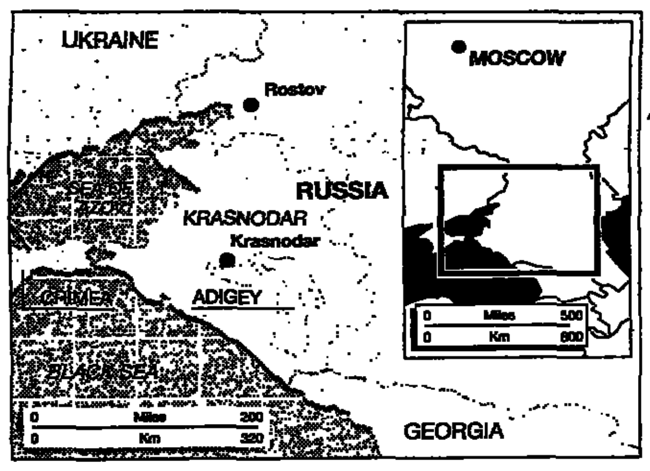
Ironically enough the carrier was not deployed in the Adriatic with the intention of becoming more deeply embroiled in the Bosnian conflict. If anything the opposite is true.

While the ship is currently providing services to Nato, officers on the Invincible are highly conscious of the "national task" of pulling out British ground forces which would be their top priority in any dramatic deterioration of the Bosnian crisis.

But the insistence with which officers on the Invincible discuss the moment when "national tasks" might take over is a reminder of how quickly the alliance solidarity could unscramble if its members continue to disagree over Bosnia.

Far left and right make running in Krasnodar

John Lloyd on a poll battle in south Russia



Battles for the regional and city parliaments in Krasnodar Krai, southern Russia, are a microcosm of the disorder among Russia's democrats and the organisational strength of the far right and left. The party campaigns leading up to yesterday's election – the results of which will be known today or tomorrow –have been dominated by two groups, both of which fielded some 30 candidates: on the left, the hardline Communists united in a group named Otechestvo, or fatherland; and on the far-right, the Liberal Democratic Party of Russia (LDPR), led by Mr Vladimir Zhirinovsky.

The far-left groups which make up Otechestvo were able to put aside their sectarian differences, though they proved to be too extreme for the official Russian Communist party, which ran separately.

Mr Igor Kolomiitsev, editor of the Kubansky Kurier, one of the main regional papers which enthusiastically supports the LDPR says the party has several leading members but that they all "submit to the leadership of Vladimir Volfovitch [Zhirinovsky]. We have one leader, because we know that he is the person people know and they will vote for us through him".

Mr Alexander Kovalov, an organiser for the liberal Russia's Choice party, led nationally by the former prime minister, Mr Yegor Gaidar, said: "We tried to unite but the people in Moscow won't have it. Each of them wants the president's chair," a view illustrated by the absence of democratic leaders in the campaign.

The local administration also put forward some 30 candidates to the regional and city parliaments under the banner of "Our Group, Our home". A leading light of that group is the city's mayor, Mr Valery Samoilenko who was fired last week by President Boris Yeltsin for his "refusal to fulfil the president's decrees". Local opinion was divided on whether this would harm him, or increase his popularity.

Besides controlling the Kurier newspaper, the Zhirinovsky faction also produces a party paper called Pravda Zhirinovskovo (Zhirinovsky's Truth) and runs a local television station, M Studio, which last week was running and re-running videos of Mr Zhirinovsky's tours of the area.

Mr Kolomiitsev says a group of wealthy local entrepreneurs have given financial support to the LDPR. They support the party organisation, and put up the money for, and advertise on, the television station.

"The main issues here," he says, "are crime and corruption: crime associated with the immigrants who have come here from the Caucasus because of the wars, and the corruption of the local administration. This is a special area. A great deal of oil and metals goes out of the port of Novorossiysk; the people in power take a slice of that and put it in bank accounts in Cyprus."

It was corruption, says Mr Kolomiitsev, which turned him from a democrat to an avid supporter of Mr Zhirinovsky. He had collected a dossier on the local administration, and went last November to Moscow to present it to President Yeltsin. After a series of appointments with officials, he was told by a fellow petitioner – with a similar dossier – from Irkutsk that the latter's evidence had persuaded Mr Yeltsin to sign an order dismissing a top area official, only to revoke it two days later.

"I understood there was no good going on. I had an introduction to Vladimir Volfovich from his local leaders. I went to see him and was immediately shown in and had a long talk.... I became a member and never regretted it. I think Russia needs a period of order – not fascism, not camps – but a period where the guilty are punished."

This sentiment is widespread in Krasnodar. Nikolai, a pensioner who would not give his last name, made a torrent of complaints about migrants and about crime. "They have no fear of punishment," he said. "At least in Stalin's time you could be sure of equality and of fear before the law. Now you need someone in power who says, right, you're guilty, you've murdered, you will be shot. Do that three or four times and you'll have peace." For all his robust views, Nikolai supports not the Communists or the LDPR, but Yabloko, the reformist group led by Mr Grigory Yavlinsky, which fielded six candidates

The liberal parties, too, have had to take note of local sentiment. Russia's Choice, according to Mr Kovalev, has three principles: the clean-up of local government and publication of the budget; unity among Kuban Cossack organisations; and "protection of Russian speakers". Mr Kovalov says that "there are many peoples living here peacefully - but the migrants who have come in from the struggles in the Caucasus cause huge problems."

Businessman Sergei Frolov, of the Economic Freedom party, who has spent Rbs20m of his own money on the campaign, says: "I don't talk to people about economic reform, they don't understand these things. I talk about ensuring water supply, getting new trams, getting stable prices".

"We need a sense of our own history. We need to create a middle class and property rights. People don't understand this. But they will respond to people of character and energy: everything depends on the individual in our politics."

Mr Kolomiitsev agrees, but draws a different moral. "It's not like the west . . . Here everything is myth, rumour. People believe the opposite of what they hear from the authorities. They respect strong characters. That helps us now, which is why we're winning."

classed'

NEWS: INTERNATIONAL

Republican leader says fast track legislation may not be renewed by Congress next year

Dole 'close to a deal' on Uruguay Round

By Nancy Dunne in Washington

Senator Robert Dole, Republican leader in the US Senate, yesterday said he was close to a deal with the administration on passage of the Uruguay Round implementing legislation this year.

Mr Dole is considered the key to approval of the Round; some lobbyists say he can bring 12 Republican votes with him. Sixty out of 100 votes are needed for passage of a budget rule, which would clear the legislation for floor action. Even with Mr Dole's support, the vote is expected to be close.

He also suggested on television yesterday that Congress would not support a renewal of "fast track" legislation next year. This could kill administration plans to negotiate further trade agreements with Chile and other Latin American nations.

The so-called fast track is a promise by Congress that it will vote trade agreements up or down, without attempting to amend them. The administration was unable to get fast track renewal attached to the Uruguay Round implementing legislation this year, even with Democrat control of Congress.

That failure is seen as having crippled President Bill Clinton on the trade front as he prepares to meet Latin American presidents at the summit of the Americas next month.

Mr Dole met administration officials at the weekend and threw a new demand on the negotiating table. He has asked for "assurances" from Mr Lloyd Bentsen, the treasury secretary, which would ease passage of a cut in the capital gains tax rate next year.

This could be accomplished without cost to the budget, if the proposed legislation is "scored" by the Treasury as a revenue enhancer rather than a loss, as Republicans have been arguing for years.

As a potential candidate for the Republican presidential nomination in 1996 Mr Dole is struggling to satisfy the concerns of the Republican right wing that the WTO would mean a loss of US sovereignty.

He said he would "fix" the legislation with amendments next year. "I proposed a way to get out of the WTO if we have these arbitrary, capricious, adverse decisions coming from this secret panel," he said.

One of his suggestions is to establish a panel of US trade experts to report to Congress on rulings from WTO dispute settlement panels. Congress could pull out of the WTO after three rulings, unfavourable to the US, were deemed by the experts to be not in conformance with WTO rules.

Small steps forward for European exporters

William Dawkins at the sixth EU-Japan ministerial meeting in Tokyo

Satisfaction but not euphoria was how Sir Leon Brittan, the European Trade Commissioner, described his mood after the sixth EU-Japan annual ministerial meeting on Saturday.

Sir Leon and his two colleagues, Mrs Christiane Scrivener, in charge of tax and customs, and Mr René Steichen, responsible for agriculture, returned to Brussels yesterday with a briefcase half-full of small, yet concrete, trade prizes designed to help European exporters make their way in the Japanese market.

Individually, the fruits of the commissioners' visit are as technical and low-profile as the components of Europe's attempt to achieve economic integration – a process which may have lessons for Japan's present halting steps to economic deregulation.

Yet in total, the outcome is enough, Sir Leon claimed, to show that Europe's diplomatic style of trade negotiations with Japan is bringing results. That message is intended to soothe any European executives who suspect they are being cut out of Japanese trade deals achieved by their US competitors through threats of unilateral action from Washington.

The EU trade prizes are:

- A Japanese government declaration that it wishes private sector companies to allow no political considerations to influence commercial decisions. Given the traditional power of nods and winks from Tokyo, this could carry real weight, if backed up by bureaucrats in the ministries concerned.
- Tokyo is to negotiate with Brussels, starting immediately, on recognition of each others' industrial certification and product tests. The EU is the first trade partner with which Japan has had such talks.
- Japan has agreed that imported food can carry "use by" dates, rather than the date of manufacture, as proposed in its most recent deregulation package, in July.
- Japan will accept Japanese standards certificates issued by EU bodies, for textiles imports.
- Imports of high-quality EU linen will be permitted to carry labels differentiating them from inferior competition.
- European exporters of 400 electrical appliances will be able to certify themselves as safe under Japanese standards from next year, rather than have their goods tested in Japan.

On top of this, the Commissioners patted their hosts on the back for progress in opening the Japanese market since the last ministerial meeting in January 1993. They were especially pleased with a plan for clearer public procurement rules, tighter laws against bid-rigging, and a recent boost to the staff and operating guidelines of the formerly toothless Fair Trade Commission.

Sir Leon pointed out that there was still a long way to go on other trade gripes with Japan, such as the continuing wide gap in tax on imported and Japanese spirits. Financial deregulation had not gone far enough and there was still a large number of official curbs on large stores, said a EU report.

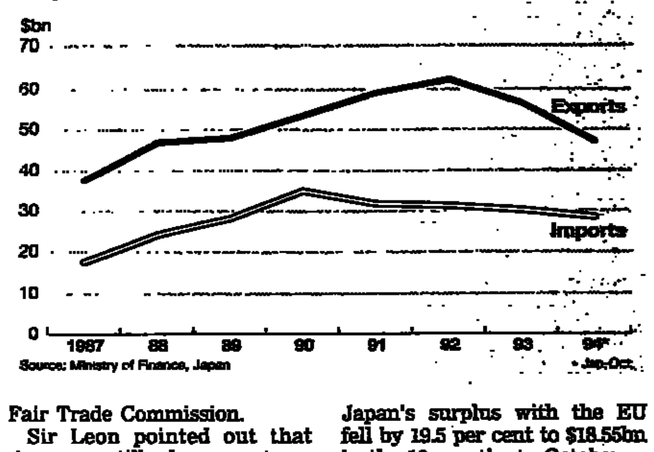
While Japan's trade surplus with the US has continued to rise, by 9.4 per cent to $44.29bn (£27bn) in the first 10 months of this year, its surplus with the EU is in its second year of decline, perhaps evidence that Europe's polite approach pays.

Japan's surplus with the EU fell by 19.5 per cent to $18.55bn in the 10 months to October.

Sir Leon firmly denies that the EU is tempted by the US strategy of trying to pin Japan down to targets for import market share or the reduction of its current account surplus to a certain ratio of gross domestic product.

Yet the EU team's official "expectation" that Japan's surplus would fall substantially by next year indicates that it wishes to apply at least polite pressure. "We should not be starry-eyed... and yet we should not be overly cynical," said Sir Leon.

Japan's trade with the EU



Japanese drinks regime under fire

Japan's practice of taxing its domestically produced shochu spirit more lightly than whisky, gin and other internationally made drinks comes under attack again today, writes Roderick Oram, Consumer Industries Editor.

In two days of talks with Japanese officials in Tokyo, a delegation of producers from the EU, the US and Sweden will urge the government to use its 1995/96 budget to harmonise its liquor taxes. Seven years ago, Japan accepted the finding by a Gatt panel that its taxes discriminated against non-shochu drinks, but so far it has only partly amended them. Whisky and brandy are still taxed between four and seven times more heavily than shochu, a traditional liquor. The rate on vodka, gin and rum is two to three times higher.

Shochu's share of the distilled drinks market has risen from 61 per cent in 1989 to 74 per cent today, according to Mr Tim Jackson of the Scotch Whisky Association, who is leading the delegation. Imported drinks account for only 8 per cent of the market, compared with more than 30 per cent in most other developed countries. The taxes also favour shochu over Japanese-made whisky and other spirits.

Quebec shelves big hydro plan

By Robert Gibbens in Montreal

Quebec has shelved its controversial C$13bn ($9.6bn), 3,100MW Great Whale hydro-electric project indefinitely.

"Great Whale is on ice for a good long while and we don't need it now," said Mr Jacques Parizeau, Quebec's premier, whose separatist Parti Québécois government won the September 12 provincial election. He promised a new review of Quebec's energy needs.

The decision was warmly greeted by environmentalists everywhere and by the Quebec Cree Indian leader, Mr Matthew Coon Crome.

The Great Whale river, running into Hudson Bay and its huge watershed, would have been dammed. A big area in the ancestral lands claimed by the Cree would have been flooded. The Cree have fought the project since 1985, demonstrating also in the US and Europe.

Labour and business groups warned of job losses, saying they would soon lobby again in support of the project.

Great Whale, 700 miles north of Montreal, was to have followed the James Bay hydro development just south of it. James Bay, now being completed, adds about 13,000MW to Quebec's power capacity for C$20bn. Quebec, Canada's second biggest province, has total generating capacity of more than 30,000MW – almost all hydro.

The Great Whale project received a heavy blow in 1992, when New York state cancelled 20-year supply options worth at least C$17bn. Quebec could not finance Great Whale without guaranteed exports to underwrite international bond issues.

INTERNATIONAL PRESS REVIEW

Little Prince pays a call

ARGENTINA

By David Pilling

The arrival of the "Little Prince", as some Argentine papers refer to Britain's Duke of York, was by no means the only news story in town. The official royal visit, the first since the 1982 Falklands war between Argentina and Britain, vied for space with a political brawl over allegedly extortionate telephone tariffs, the hotting-up of presidential elections and, most notably, continued back-biting over government budgetary woes.

The last item was slapped across the front pages after President Carlos Menem decreed a freeze on all public spending for the rest of the year. Journalists inevitably produced reams asking if the state machine was about to grind to a halt: would government officials have sufficient supplies of coffee and toilet paper to last them until Christmas? Who was going to pay for the president's forthcoming trip to Syria?

But the duke held his own against such feisty competition, even making the front-page following flag-burning demonstrations outside the British embassy.

The press was torn between whether to treat the visit as a serious news item or to view it as a somewhat frivolous exercise in bilateral protocol. "Twelve years after the Malvinas war, Menem received the Little Prince of the British throne in an act of reconciliation: they played golf, they exchanged military uniforms and today they will inaugurate the Canning statue," the daily *Pagina/12* highlighted on its front page. Almost as an afterthought, it added: "27 arrested and 5 wounded in protests."

Menem: decreed freeze

Not that the symbolism of the royal presence was lost on anyone, particularly after recent controversy over Argentina's alleged proposal to pay Falkland islanders up to $1.5m (£915m) each to give up their British citizenship. "The inhabitants of the Malvinas view the visit with unease," said *Ambito Financiero*. "The apparently growing possibility of a reconciliation between both countries makes them fear for the eventual sovereignty of the islands."

Ample coverage was also given to Argentine disquiet at the return of the prince, who participated in the war as a helicopter pilot. *El Cronista* aired the opinions of Radical deputy Raúl Galván, who "exhorted the government not to exaggerate in the honours bestowed upon the prince, because this 'would signify a lack of respect to those who died in the Malvinas'".

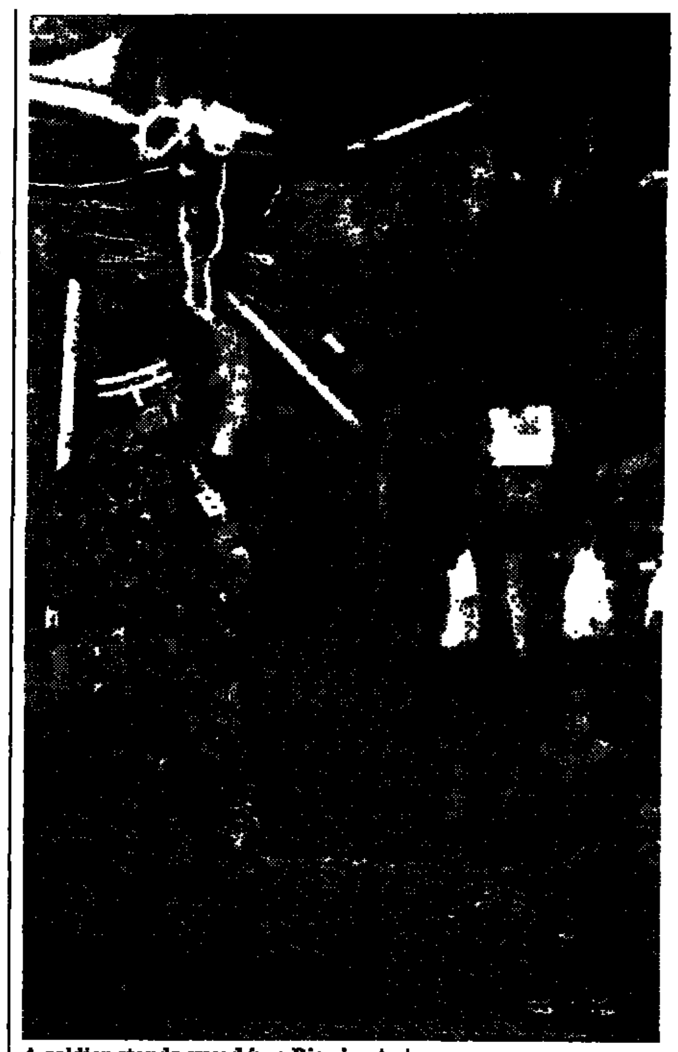
Newspapers also focused on potential tension over the duke's visit to the former naval base of the General Belgrano cruiser, "sunk by the British outside the exclusion zone".

La Nación said: "A contradictory mood was expected among navy officials, with many hinting that they would refuse to shake hands with the British prince or to comply with the military salute." It said, though, that most Argentines were less worked up about fraternising with a former enemy. "While some of those on the left and the right deplore the visit... for most people the arrival of the prince does not constitute an important topic of conversation [because] it reminds them of an incident they would prefer to forget."

The Falklands theme was not forgotten, though by the end of the week it had shifted to the reported sacking of Argentina's ambassador to London. Mr Mario Campora was said to have lost his job for criticising the plan to buy back the islands – known locally as "Menem's bribe" – on the grounds that you should not pay for what was already yours by right.

The sovereignty buy-back idea, originally put forward by British prime ministerial adviser Sir Alan Walters, has by and large been ridiculed. In particular, Pagina/12 ran an article shortly before the duke's arrival in which the Falklanders were represented by a photograph of penguins dressed up in top-hats and tails. The paper felt that the "kelpers" were basically immune to Argentina's charm offensive. "The foreign minister acts like a man trying to seduce a woman. He will not be disheartened even though he is slapped on the face at each hint."

The article said Falkland-Argentine relations had perhaps been irreversibly ruined by the conflict.



A soldier stands guard in a Rio shanty town — Reuter

Rio slums crackdown

Brazil's armed forces sealed off seven of Rio de Janeiro's shanty towns over the weekend in a move one military commander described as "psychological intimidation" of the city's drug traffickers, Angus Foster writes from São Paulo.

The exercises, which involved more than 1,000 troops and police, were the biggest since the federal government last month gave the military control over rounding up Rio's drug kings. The city's police force, widely corrupted by drug money, had lost control of Rio's several hundred shanty towns to the traffickers.

The armed forces' movements encountered almost no resistance and were largely welcomed by residents.

The government decided to use troops partly because of a massacre of 13 shanty town residents by police last month.

INTERNATIONAL NEWS DIGEST

Riyadh, Moscow to strengthen ties

Saudi Arabia and Russia, which established full diplomatic relations after the 1990-91 Gulf crisis, yesterday agreed to improve relations and strengthen trade ties. The agreement was signed during a two-day visit to Saudia Arabia by Russian prime minister Victor Chernomyrdin, who held talks with King Fahd and Saudi officials and businessmen. Russian officials said that the agreement would open the door for specific deals on trade, economics culture, technology and sport. They said that they also hoped for closer political ties. Diplomats in the region said that Mr Chernomyrdin, who is on a tour of Gulf countries, was keen to reassure wealthy Gulf Arabs suspicious of Moscow's ties with Baghdad that Russia would not develop them at the expense of relations with other states. Moscow has been leading a campaign in the UN Security Council to ease sanctions on Baghdad imposed after its 1990 invasion. Total trade turnover between the two countries is small and worth only about $30m a year, mostly comprising Russian exports, including timber and cars, to Saudi Arabia, especially after Iraq's recognition of its southern neighbour earlier this month. *Reuter, Riyadh*

Volvo truck plant for Poland

Volvo, the Swedish car and commercial vehicle maker, is to establish a truck assembly plant in Poland. The plant, which will be located in Wroclaw, will have a capacity to assemble up to 1,000 heavy and medium-duty trucks a year. Volvo trucks have been assembled hitherto in Poland by Jelcz, the Polish truck maker, but this agreement expires at the end of the year. The Swedish group said that it would be moving equipment, tools and personnel from the Jelcz facilities to Wroclaw, where it planned to produce more than 700 trucks in 1995. Volvo is the leading importer of heavy-duty trucks to Poland and expects to deliver around 550 units this year. It has established a new marketing and finance company during 1994 and has a network of 10 dealers selling exclusively Volvo vehicles. *Kevin Done, London*

Success claimed against Eta

Security chiefs in the Basque Country yesterday claimed that they had dealt a significant blow against the Eta separatist group after a succession of detentions and the discovery of urban hideouts and arms caches. However, the violent response by Eta supporters, who rioted in protest, served to dash hopes for peace in the Basque country. The events, which centred on Bilbao, followed the arrest last in week in Toulon, south France, of Mr Felix Lopéz de la Calle who was allegedly in charge of Eta's active service units. The apparent response by Eta to the Toulon arrest was an attempt to murder an army sergeant in Bilbao. This attack failed when the sergeant opened fire against three Eta members and the latter were later involved in a shootout with members of the security forces who killed one separatist, wounded a second and captured the third. *Tom Burns, Madrid*

China and Vietnam hold talks

The leaders of China and Vietnam held landmark talks in Hanoi yesterday, focusing more on solidarity than on the bitter disputes between the two neighbouring countries. Communist party chiefs Jiang Zemin of China and Do Muoi of Vietnam led large delegations in the highest-level exchange between the world's two most populous communist states since they normalised relations three years ago. Mr Jiang said that the talks were sure to improve relations between Vietnam and China. He and the Vietnamese leaders would have "an extensive and in-depth exchange of views on further developing our bilateral relations and on regional and international issues of common concern." *Reuter, Hanoi*

Human rights talks in Cuba

The United Nations' top human rights official, Mr Jose Ayala Lasso, preferred to play the diplomat rather then the judge when he visited Cuba at the invitation of the government this week. The three-day visit was the first to Latin America by the UN High Commissioner for Human Rights since he took up the newly created post this year. He stressed his visit was primarily aimed at opening up a dialogue with the Cuban authorities, but he made a point of meeting political dissidents as well as senior members of Cuba's one-party communist government. He said that he had urged the government to ratify existing human rights conventions, such as the Convention against Torture. But he also noted that economic conditions were inseparable from human rights and clearly endorsed a UN general assembly motion calling for the lifting of a longstanding US economic embargo against Cuba. *Pascal Fletcher, Havana*

UN mission in Guatemala

A United Nations mission to monitor respect for human rights in Guatemala will begin operating today amid a climate of social instability and soaring levels of abuses. The mission of some 300 observers is fruit of an agreement signed in March between the government and left-wing guerrillas, which both sides have since frequently violated. Its mandate is to support the authorities in investigating human rights abuses and to make recommendations on how existing institutions can be improved. But it faces a judicial system where judges are frequently bribed or threatened and a police force which is poorly paid, badly trained, routinely corrupt and with little investigative capacity. The mission will also need the co-operation of the powerful army, which has jealously guarded its independence and virtual de facto immunity from prosecution. *Edward Orlebar, Guatemala City*

Bangladeshi talks fail

Commonwealth envoy Sir Ninian Stephen said yesterday that he had failed to end Bangladesh's protracted political crisis and would leave the country soon. "I hope there can still be a peaceful and speedy resolution of the issues that today divide your political parties," he said. "Violence and uproar will achieve nothing. I urge the people of Bangladesh not to go down that road." Bangladesh's political opposition has boycotted parliament since February and mounted other protests to try to force the government to resign and call elections under a caretaker administration. The elected government need not call new polls until 1996. *Reuter, Dhaka*

Fundamentalists force Arafat to remove kid gloves

Julian Ozanne assesses the Palestinian leader's position after Friday's killings

Mr Yassir Arafat's Palestinian self-rule authority is fighting a battle with a resurgent Islamic opposition for the minds and hearts of Palestinians in the Gaza Strip. Although far from over, it is a battle he is so far losing.

Mounting confrontation between the authority and the Hamas Islamic Resistance and Islamic Jihad – the two Islamic militant groups opposed to peace with Israel – has strengthened the hand of Mr Arafat's opponents.

Exploiting Mr Arafat's apparent weakness and his inability to deliver on promises of Palestinian liberation, the Islamic opposition has openly challenged the Palestinian leader's authority on the streets of Gaza culminating in last Friday's killing of 13 Palestinians in internal violence.

"There has been a big increase in support for Hamas," said Mr Raji Sourani, head of the Gaza Rights and Law office. "But it's important to distinguish support for their actions against support for their long-term goals. Few Palestinians want to see an Islamic state but there is increasing frustration and anger about a lack of progress and the Islamic groups are using it."

Hamas and Jihad have vowed to continue attacks on Israel until the Jewish state is forced to surrender all occupied Arab land from the Jordan river to the Mediterranean sea. Many Palestinians see Hamas and Jihad attacks as legitimate resistance to Israeli occupation and are increasingly discontented with Mr Arafat who is locked into a peace process which appears to many Palestinians to be going nowhere. The Islamic leaders know that attacks against Israel win them support.

"The peace agreement has deprived Palestinians of their rights and it is our right to resist occupation," said Sheikh Abdullah Shammi, a leader of Islamic Jihad. "We are going to continue attacks against Jews anywhere and make them feel they can have no security on our land and we know this is going to make us stronger with the Palestinian people because we are now the only hope for Palestinian rights."

In the aftermath of Friday's killings both Jihad and Hamas have tried to portray themselves as the victims of oppression by Mr Arafat. In a culture steeped in the political and religious values of martyrdom, the deaths are likely to add to the appeal of the Islamic groups.

Publicly Hamas and Jihad deny they are seeking confrontation with the Palestinian Authority and are anxious to rule out the threat of civil war. Since Friday Islamic leaders have urged their supporters to step back from violent conflict with Mr Arafat and turn their guns on Israel.

"Nobody can push us to a civil war," said Sheikh Abdullah Izak of Islamic Jihad. "There will be more military activities against Israel but we don't want confrontation with the authority. Arafat and the authority are our brothers."

But political observers believe that much of Hamas rhetoric is for internal consumption because they do not want to be perceived by Palestinians as challenging the authority and risking civil war. They are determined to sabotage Mr Arafat's rule and force him into confrontation because they see the authority and the peace agreement as an obstacle to liberating the historical land of Palestine.

"The Islamic movement is greedy for power but it is not sure that they have yet decided to go for power," said Mr Sourani. "They don't think like other political groups in terms of ultimate political goals. For them it is quite enough to go along with the struggle, which could take generations. It might involve destroying Arafat and if there is chaos they don't mind so long as they can keep the struggle alive and openly confront Israel."

Furthermore the Islamic movement is diverse and often speaks with different voices. While some leaders have called for dialogue and reconciliation, others have said it is impossible to reach a modus vivendi with the Authority. The military wings of the movements also seem virtually autonomous from the leadership above ground and much more radical. A leaflet by the military wing of Hamas warned yesterday the group would extract a bitter revenge against the authority for Friday's killings unless Mr Arafat replaced his military commander, a senior police chief and his justice minister who were described by Hamas as corrupt traitors, criminals, murderers.

Since his return to Gaza five months ago Mr Arafat has treated the Islamic opposition with kid gloves against the advice of hardliners like Gen Nasr Yussuf, overall Palestinian military commander. Like his opponents he has been anxious to avoid the possibility of civil war. But his authority has been so openly flouted that before Friday's confrontation it was beginning to look as if he was not in control of the streets.

Senior advisers to Mr Arafat say that unless the Authority cracks down further they will be drawn into a battle which could attract Islamic activists from the region who will see Gaza as a soft target for advancing their goals of an Islamic revolution in the region.

It is a fear which is shared in neighbouring Egypt. President Hosni Mubarak warned on Friday that "without giving the Palestinians hope, Gaza could become a base for destabilisation that will affect not only the Middle East... It is going to affect Europe. It is very easy to go from here to Europe especially as you have cells of fundamentalists all over Europe now."

Mr Arafat yesterday called for national unity but said he would not allow any force from outside to harm the Palestinian dream. The Authority has repeatedly said since Friday that outside elements provoked the conflict, a tacit reference to extremist groups in Syria and Iranian Islamic fundamentalists.

As if to prove the claim, angry Iranian students protested outside the Palestinian mission in Tehran yesterday calling Mr Arafat a tool of Zionism. A leading Iranian cleric said revenge should be taken against Israel and the US but that "Arafat and his clique come next in line to be punished."

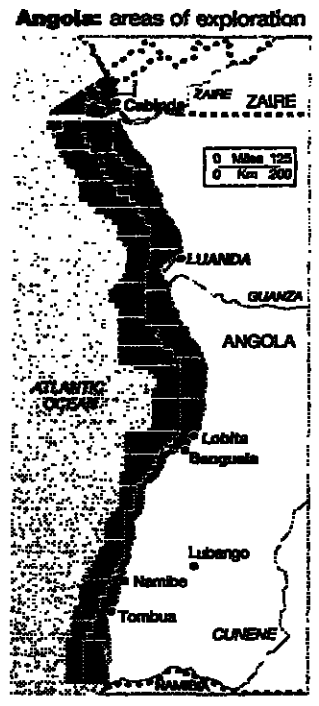
Since Friday there has been a stand-off between the Palestinian authority and the Islamic groups, mediated by Israeli Arabs and independent Palestinians. But Mr Sourani warned: "Neither side can afford to retreat because one step backward means a loss of control." Both sides are carefully weighing the risks of further violence.

Angolan oil output shrugs off civil war

By Robert Corzine

Angola government and rebel leaders at yesterday's signing of a peace accord Reuter

Angola: areas of exploration



The Angolan civil war which has left most of the country's economy in ruins has barely affected the oil industry, which this year has hit new production highs.

A new deep-water field off the coast of the Cabinda enclave is about to begin production, taking Angola's daily output up to about 600,000 barrels a day of generally high quality oil, well up on the 1993 average of 512,000 b/d.

The consistent rise in output has been achieved in spite of fighting earlier this year which destroyed some oil storage and loading facilities around the coastal town of Soyo, just south of Cabinda.

Part of the reason why the oil industry has proved so resilient is the fact that much of the production is from offshore fields beyond the range of land-based artillery.

The growing use of offshore processing and tanker loading facilities means oil no longer needs to be piped ashore before being exported, mainly to the US.

Although the war has not disrupted the industry, a political settlement would probably encourage a faster pace of development.

Many companies, for example, are keen to explore further in the onshore areas of Cabinda. But the threat of attacks from a Cabindan separatist group has prevented them from carrying out seismic studies and other exploration activities.

A good deal of exploration is taking place offshore, however. Earlier this week the Angolan news agency Angop reported that Elf Aquitaine, of France had discovered an oil field 130km off the coast.

Other companies, including Chevron of the US, are optimistic that the deep water areas now being licensed will prove as prolific as those in shallower waters.

Renamo leader accepts party's defeat at polls

Fears of renewed war in Mozambique have receded now that Mr Afonso Dhlakama, the former rebel leader, has accepted defeat for his Renamo movement in last month's first multiparty general elections, *Reuter reports from Maputo.*

The October 27-29 poll was won by his civil war foes, President Joaquim Chissano and the Frelimo party, which has ruled since 1975 independence from Portugal.

Mr Dhlakama insisted, however, that final results announced by the independent national electoral commission on Saturday contained irregularities and were not free and fair as declared by international observers.

Nevertheless, he said he would play a constructive role as head of the opposition in parliament, adding: "I send a message of peace to the Mozambican people."

The results gave Mr Chissano 53.3 per cent and Mr Dhlakama 33.73 per cent of the 5.4m votes cast in the presidential election. Frelimo won 129 seats in the 250-member parliament. Renamo won 112. A small coalition, the Democratic Union, won the rest.

Mr Aldo Ajello, the United Nations representative who has been overseeing an October 1992 peace accord that ended 16 years of civil war between Renamo and the formerly Marxist government, gave his seal of approval. So did the Organisation of African Unity and the European Union.

"Problems have occurred, irregularities were recorded and disruptions did take place," Mr Ajello told a news conference. "However, throughout the entire process, there has been no event or series of events which could affect the overall credibility of the elections."

Diplomats said the risk of fresh conflict now seemed remote. "Dhlakama had to say there were irregularities to save his pride. But Mozambicans are tired of war. He knows there is no point going back to the bush," said a western diplomat.

Mr Dhlakama boycotted the first day of voting because of fraud allegations, prompting fears that he might plunge Mozambique back into war as happened in Angola, southern Africa's other former Portuguese colony. But pressure from the the UN, which had spent $1m a day on the peace process, and from neighbouring states, which threatened intervention, persuaded him to rejoin the elections.

Mr Chissano, in a victory broadcast, called for peace among the 16m people, most of whom have lost family, friends or limbs in the war, which reduced Mozambique to one of the world's poorest countries. "War was defeated at these elections," he said. "All have the patriotic obligation to heal the wounds."

While promising to open dialogue with opposition parties and urging that Mr Dhlakama be treated with respect, Mr Chissano revealed no plans to include his former foe in the cabinet due to be formed by mid-December.

Hardliners in Frelimo balk at international pressure to form a national unity government.

Central bank issues warning on interest rates

By Gillian Tett, Economics Staff

British interest rates must be raised if the UK economy continues to expand at its current rate, Mr Eddie George, governor of the Bank of England [the UK central bank], warned yesterday.

His comment follows publication of figures last week which showed that the UK economy is growing much faster than previously expected.

The figures have fuelled City speculation that Mr George will soon press for a rise in interest rates. But Mr Kenneth Clarke, chancellor of the exchequer, who is to speak on the economy in the House of Commons on Wednesday, is likely to be reluctant to raise rates before Christmas if, as expected, his Budget on November 29 unveils tighter fiscal measures.

Nevertheless, with last week's figures indicating gross domestic product 4.2 per cent higher in the third quarter than in the same quarter last year, Bank of England officials believe growth is now unsustainably high.

Speaking in Dubai, where he was attending an international banking conference, Mr George told Reuters: "We have the economy growing very strongly. Unless it begins to slow down of its own accord, there is no doubt we will have to to help it slow down through tighter monetary policy."

At Mr George's last monetary meeting with the chancellor, the two men apparently agreed to leave interest rates unchanged at 5.75 per cent.

Mr Clarke's next monthly meeting with Mr George is scheduled for December 7, and economists are divided about the risk of a rise then. However, Mr Clarke is likely to face protests from within his own Conservative party if he raises interest rates before Christmas having, as expected, acted in the Budget to introduce tighter tax measures.

Although manufacturing is growing steadily, boosted by a recovery in exports, last week's figures suggested that trading conditions will be tough for retailers in the pre-Christmas period. Meanwhile, as the chancellor and governor have stressed in recent weeks, UK inflationary pressures remain relatively subdued, with the underlying rate of retail price inflation at its lowest for 27 years.

The government faces strong pressure to demonstrate in the Budget that its sympathies are shifting from cars to public transport, our Transport Correspondent writes. The long queue of projects waiting for cash includes:

- **Technologies for electronic tolls on motorways are being evaluated by the Department of Transport for testing next year. More details of the expected private sector contribution to the project may be announced in the Budget.**
- ***Light rail or "supertram" projects planned in several cities.***
- **Proposals for a second road bridge across the Firth of Forth near Edinburgh – costing an estimated £400m – are being studied by the Scottish Office.**

Spending on wine is dubbed 'obscene'

The opposition Labour party yesterday accused ministers in the Conservative government of operating an "obscene sense of priorities" in official spending on wine, James Blitz writes at Westminster. The accusation came after the government disclosed that it had spent more than £570,000 – an average of £5.26 ($8.62) a bottle – on wine for official gatherings in the past five years.

Mr Alan Milburn, Labour MP for the northern England town of Darlington, said the purchasing was done by an organisation called the Government Hospitality Fund Advisory Committee for the Purchase of Wine under the auspices of the Foreign Office. Sir Ewen Fergusson, chairman of Coutts Bank, chairs the advisory committee of five wine experts. Sir Ewen was UK ambassador to South Africa in the early 1980s and ambassador to France from 1987-92.

Mr Milburn accused the committee of wasting public funds while Conservative finance ministers are urging restraint in public expenditure. "With huge spending cuts being planned, it is an obscene sense of priorities to lavish large sums of public money on buying wine to dish out at receptions," he said.

The Foreign Office said the average spending of £110,000 a year "does not necessarily mean that money was actually used in the last year because some wine is bought and then stored." It said 500 functions were arranged by government departments last year involving 35,000 guests.

Such entertainment, involving people from all walks of life, was in "direct support of government activities and objectives," it said, citing examples as diverse as the promotion of exports and an award ceremony for disabled people. It added that government officials and not the five experts decided which wines to buy.

Tories learn why supporters are deserting them

By Robert Peston

A blackout on media coverage of the National Health Service features in a draft Conservative party communications plan for the next general election.

Not intended for publication, it was written by Mr John Maples, the party's deputy chairman and a former minister, for Mr John Major, the prime minister, and officials at the party's headquarters.

It is based on market research by the party of individuals on average earnings who voted Conservative in the 1992 general election but now say they might or would not because they see the government as "ineffectual and unable to deliver its promises". Those surveyed are in the average-income social categories whose support was crucial to the Conservatives' three previous election victories.

They are described in the research as "natural Conservatives" but they disapprove of privatisation and believe that the "rich are getting richer on the backs of the rest".

Dated 30 September 1994, Mr Maples' proposal for wooing them back says the election "could be as little as twenty months away and no more than thirty months". It identifies the task in the 12 months before the 1995 Conservative party conference as eroding or reversing the Labour party's lead in the opinion polls on four main issues: the economy, law and order, education and the state health service.

On the economy, Mr Maples says: "The crucial issue here is living standards, which are "falling in 1994 to 1995" and will "again in 1995 to 1996". He says the government's talk of recovery is "completely at odds with their [the surveyed Tory supporters'] experience". While he believes that Labour's lead on law and order can be reversed, he is pessimistic on the health service. The paper says: "We can never win on this issue". It adds: "The best result for the next twelve months would be zero media coverage of the National Health Service".

Apart from the health service, Labour's other great electoral asset is identified as its leader, Mr Tony Blair. The paper says: "If Blair turns out to be as good as he looks, we have a problem". It continues: "We cannot paint Blair as a left winger".

However, it urges a strategy of drawing commitments from the Labour leader which illustrate the divide between him and many members of his party.

Mr Maples suggests trying to appeal to disenchanted supporters by changing and increasing the tax levied on executive share options in order to deflect criticism of "excessive" executive pay packages.

JOHN MAPLES (left) on . . .

The economy: "What we are saying is completely at odds with their [our supporters'] experience"

The state health service: "The best result for the next twelve months would be zero media coverage"

Opposition leader Tony Blair: "If Blair turns out to be as good as he looks we have a problem"

The media: "We need to feed our friends and potential friends in the press with good stories"

Other "friends": "We must avoid antagonising our friends in the police, CBI [Confederation of British Industry – the UK's biggest employers' group] etc if we can possibly help it"

What Conservative supporters with average incomes think about the government:

" 'incompetent' in three senses – cannot run the country; 'bull-in-a-china-shop' approach to change and scandals; shooting ourselves in the foot

Names unite to combat threat to divert funds

Lloyd's faces extra challenge

By Ralph Atkins, Insurance Correspondent

Groups representing loss-making Lloyd's of London members have combined to finance a legal challenge to the insurance market's latest attempt at recouping money owed by the members.

The new Litigating Names' Committee says it has enough money for a challenge in the High Court to Lloyd's proposals for ensuring that damages won in courts by lossmaking Names are used to settle their outstanding debts at the insurance market.

A month-long consultation exercise on Lloyd's proposals ended last week with approximately half of those responding understood to oppose the changes.

The new committee says its legal advice suggests that, by trying to put itself in a preferential position ahead of other creditors, Lloyd's is breaching fundamental principles of insolvency law.

Mr Michael Deeny, chairman of the Gooda Walker Action Group, whose members recently won damages for negligence, said: "We are confident that the High Court will declare these changes unlawful and we urge Lloyd's to abandon them. The priority of the council of Lloyd's should be just and equitable settlement, not forcing Names to engage in fresh legal battles."

Fear of IRA split is rejected

By Stewart Dalby in Belfast

Mr John Hume, leader of Northern Ireland's mainly Roman Catholic Social Democratic and Labour party, has dismissed reports that the Irish Republican Army will split and that one faction will abandon the August ceasefire.

His comments followed reports that an IRA faction based in South Armagh would take up arms again by March if Britain did not make significant constitutional concessions to the republican movement.

He said at the weekend: "I have been at the centre of the [peace] process from the very beginning. I can tell you there are no deadlines for the IRA, no secret deals."

Earlier Mr Hume said he firmly believed the ceasefires by the IRA and anti-republican paramilitaries loyal to the UK would prove durable.

Addressing his party's annual conference in Cookstown, County Tyrone, he predicted that the ceasefires by both sides will prove to be decisions that have taken the gun and the killing of human beings out of our politics for ever."

- Mr Gerry Adams, president of the nationalist Sinn Féin party, yesterday deplored Northern Ireland's spate of punishments by severe beating. "I am opposed to them; I always have been," he said on BBC television in London. But he cautioned against blaming all such beatings in nationalist areas on the IRA.

London found to contain nation's worst poverty

By Alan Pike, Social Affairs Correspondent

Britain's biggest cities became concentrations of growing disadvantage during the 1980s, a study by the Policy Studies Institute, an independent right-wing think-tank, concludes today.

Birmingham, Glasgow, Liverpool and Manchester are all shown to have experienced growth problems, with inner city deprivation spreading to nearby areas.

London, in spite of the affluence of some citizens, "increasingly contains the largest concentration of poverty and relative deprivation in Britain". On the basis of new means of defining deprivation devised by the government recently, 17 London boroughs appear among the 30 most deprived areas in England.

The report – a study of changes in deprived areas between 1981 and 1991 – reaches the "depressing conclusion" that "government urban policies over a decade or more have as yet had only limited success in reducing disadvantage in the most deprived urban areas".

Employment opportunities in deprived areas are shown to be affected far more by general levels of activity in the national economy than by initiatives like government task forces, "however valuable they may have been". There was, says the report, no observable correlation between changes in unemployment and the existence of task forces.

The study shows that, while London's deprived areas had lower levels of unemployment than other deprived parts of Britain in 1981, the capital's unemployment rates rose by more than 50 per cent between 1981 and 1991. A relative worsening of the unemployment position in the deprived London boroughs had continued since 1991.

Premature death rates in 12 out of 13 London boroughs had grown worse since 1990.

UK NEWS DIGEST

Pay rise of 75% for British Gas chief is attacked

Mr Cedric Brown, chief executive of British Gas, has received a 75 per cent pay rise, taking his basic annual salary to £475,000. The £205,000 increase, which has been backdated to the beginning of this year, makes Mr Brown's basic pay now among the highest of any UK public company director. Other executive directors of British Gas have received rises of up to 50 per cent following a review by the non-executive directors.

The news has provoked an angry reaction from trade unions and politicians. Mr Alastair Darling, the Labour party's City spokesman, said that the increases were "sheer stupidity". Mr David Stirzaker, an official of Unison, Britain's biggest trade union, described the rises as "scandalous" when British Gas was shedding more than 25,000 jobs and his union's members at the company had received rises of less than 3 per cent.

Why do you deserve to be paid so much?, Page 12

Crankshaft deal for Perkins

Albion Automotive, created by a management buy-in to take over failed truckmaker Daf's UK component operations, is to manufacture 30,000 crankshafts a year for Perkins Group, one of the world's biggest engine producers. The deal is expected to create about 50 jobs at Albion's facilities in Leyland, north-west England, where last November's buy-in preserved employment for 310 workers as well as 430 at the Albion axle plant at Scotstoun, Glasgow.

Hualon firm on Ireland pledge

Hualon Corporation of Taiwan has denied allegations that it intended to renege on its pledge not to use its planned factory in Northern Ireland to compete with producers in mainland Europe. The British Apparel and Textile Confederation last week said it would appeal to the European Court against the European Commission's approval of £61m in UK government aid for the £157m project. It said the aid was conditional on the basis that "production from the plant would be high-volume goods of low added value to compete with low cost imports".

But the confederation feared that the factory's output would be high added-value products competing directly with existing European production. Hualon insisted that the plant was intended "to supply from inside the EU a sector of the market which is increasingly being served by producers outside Europe."

Growth urged at two airports

London's Heathrow and Gatwick airports could handle an extra 30m passengers a year if two small airfields near the capital were developed, says the Adam Smith Institute, a free market think-tank. Pressure could be taken off the two big airports by expanding Redhill airfield 20 miles south of London and the underused RAF station at Northolt about 6 miles north of Heathrow, it says. The government is already considering developing Northolt for small business aircraft.

Lottery winners are pursued

THE NATIONAL LOTTERY

Camelot, the consortium organising the National Lottery, was last night waiting for two of the seven jackpot winners in the first contest to claim their share of the £5.8m ($9.5m) jackpot. The seven were being pursued by newspapers which have offered rewards to readers who help identify the winners. A total of 1.15m won prizes, mostly of £10, while the seven jackpot winners will each receive £839,254. The total payout will be more than £22m.

The lottery draw was shown on BBC Television on Saturday was watched by an average 19.3m people with 21.7m tuning in for the draw in the final minutes, according to early figures. Only 7.8m watched the rival commercial network and only 7.4m saw the commercial network's *Diana: Portrait of a Princess*, which was screened immediately after the lottery show in an attempt to win viewers back.

Russians apply for war medals

Couriers may be used by the British army's Medals Office to meet heavy demand for medals won by Russian members of the British forces during the second world war. "Most of them went back to Russia after the war and were unable to claim their medals because of the Iron Curtain," said Lt Col Jim Condon, head of the Medals Office. "We are looking at using a courier to get medals to out-of-the-way places in Russia."

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MANAGEMENT

Vanessa Houlder looks at moves to counter recent criticism of big bonuses by establishing a better link with performance

Why do you deserve to be paid so much?

The search for an equitable formula for top executive pay has acquired a new urgency this autumn, as pressure mounts on directors to curb embarrassingly high pay rises.

This month, it was the turn of Sir Bryan Nicholson, president of the Confederation of British Industry, to criticise "increases and performance bonuses which are not only well above inflation, but also out of proportion with the rewards received by the workforce for the company's performance".

So far, companies have failed to provide an adequate justification for the rewards they pay top executives. The link between pay rises and performance of the UK's largest companies is non-existent, according to a study by Graef Crystal, a US pay expert. Interest in the issue has also been heightened by pressure on companies to remedy shortcomings as many of the 10-year share option schemes introduced from 1984 come to an end.

Large, poorly-designed, incentive packages can be a problem, rather than a solution. The provision of performance-related bonuses on top of share options is "divisive, inflationary and . . . greed-promoting", according to Sir Owen Green, former chairman of BTR.

A similar debate is raging in the US, where the rewards to top executives have escalated rapidly in recent years, often helped by multi-million-dollar share option gains.

Intense controversy has been aroused by attempts to regulate executive pay more tightly and by proposed changes to the accounting treatment of share options. Salaries are now subject to greater disclosure and higher taxes on that share of the income which exceeds $1m (£600,000) a year and is not performance linked.

Preoccupation with the size of executive rewards seems to be largely an Anglo/American phenomenon, but the popularity of share options has spilled into France, where companies have been quick to spot their tax advantages. "Options have become practically the most significant element of executive compensation," says Eduardo de Martino, a partner with accountants Arthur Andersen in Paris. "You can't really recruit or retain a high-quality executive without them."

In most other European countries, the culture of share options has yet to develop, although bonuses are commonplace. In Italy, for instance, where the small- and medium-sized enterprises which form the backbone of the Italian economy are not listed on the stock exchange, top Italian directors may receive up to 25 or 30 per cent of their remuneration in the form of cash bonuses.

The fiercest debates about executive pay, however, are taking place in the US and UK, which both have highly developed stockmarkets and where the influence of any individual shareholder on company directors is relatively weak.

Much of the debate stems from the desire of institutional shareholders to ensure that top managers are focused on their investors' interests. The rise of the professional manager means that "the investing institutions demand a check on the otherwise unfettered power of the executives, who might be tempted to live well at the shareholders' expense", according to Alastair Ross Goobey, chief executive of Pos-Tel Investment Management.

EXECUTIVE LUNCH

Not everyone accepts that shareholders can extract a better performance from senior executives by paying for results. Alfie Kohn, a US management theorist, believes that the motivational theory underpinning this doctrine is "profoundly wrong-headed". The Pensions and Investment Research Council, which advises UK institutions on corporate governance issues, thinks that incentives for senior executives are inequitable and encourage short-term thinking.

The idea that incentives should be an integral part of top managers' pay packets, however, has become entrenched. Share option schemes, which typically allow senior executives to buy shares (worth up to four times their salary) at today's price in three years' time, are used by 98 per cent of FT-SE 100 and Mid 250 Index companies, according to New Bridge Street Consultants. Even the Labour party's proposal to remove tax concessions from share options is unlikely to dislodge them, it believes.

Nonetheless, share options have come under increasing fire. The Association of British Insurers believes that they "may not provide the long-term motivation to high performance that was intended when they were introduced. Options have not created long-term shareholders, since they are usually exercised, and the shares sold, at the first possible opportunity.

The most powerful criticism of share options is that they are based on a fallacious linkage between share price and management performance. In a bull market, executives with options stand to gain no matter how poor the company's relative performance has been. Conversely, in a bear market, a strong performance would not be recognised. Moreover, there is no downside if the share price falls after a disastrous performance; the options simply expire worthless.

This inability to punish failure in the same way as they reward success can distort company policy. "You might decide as a company to make acquisitions to make the share price go up. If it goes wrong you have not lost anything," says Brian Friedman, head of compensation and benefits at Arthur Andersen.

But these arguments do not convince everybody. Brian Main, a professor at the University of Edinburgh, argues that the portrayal of options as lacking downside risk neglects the fact that they have a real value when they are issued, which can be calculated using pricing formulae.

Yet this solution depends on finding agreement on an acceptable method of valuing executive share options, which is fraught with difficulty. When the Accounting Standards Board wrestled with the issue earlier this year, it concluded that it was not practical to include a "meaningful" money value of options in the accounts.

In the US, the Financial Accounting Standards Board is mired in controversy as it grapples with the same issue. It, however, is expected to conclude that executive options can be valued and should be treated as a cost that should be set against profits in a company's accounts.

This debate about valuation influences another controversial area of the debate about incentives – namely, whether performance criteria should be used as qualifying hurdles when managers exercise their options. The Association of British Insurers and the National Association of Pension Funds have decided to insist on performance conditions for options schemes to ensure that rewards are for real performance rather than mediocrity.

Main argues that hurdles are illogical. Since they merely lower the initial value of the option because of the lower probability of subsequent profitable exercise, it has "little net effect other than creating a bureaucratic complexity".

M&G, the institutional investor, has resisted the introduction of performance conditions for other reasons. "We are firmly of the view that performance benchmarks for the exercise of options may not be in the best interests of shareholders," said Paddy Linaker, then managing director, in February.

His arguments rested on the arbitrary nature of a particular performance yardstick and the potential conflicts of interest it can present. "There is a real danger that some companies, in their search for benchmarks, will choose guidelines that are too demanding and which will result in unwise corporate strategies being pursued," he said.

Over two thirds of the 38 companies which have published benchmarks for their options schemes since July 1993 have opted for earnings per share targets, according to a new study. However, they have the weakness that they can be manipulated through changes in accounting procedures.

The other most common measures are based on share price or total shareholder return. Their main disadvantage is that options gains are already linked to the growth in the share price.

In a few cases, other types of measures are being considered. Bradford Property Trust, for instance, has plumped for conditions based either on earnings per share or net asset value. BP, which considers that fluctuations in oil prices and exchange rates rule out share price and earnings per share, is considering using a measure that compares its own return to shareholders against that of the other oil majors. Other possibilities, based on concepts such as cash generation or return on capital, have been proposed by compensation consultants.

As well as tinkering with their share option schemes, an increasing number of companies are experimenting with an alternative, the long-term incentive plan. These are schemes which reward management for performance over an extended period with cash or shares.

Supporters of these schemes argue that they can neatly be tied to performance, without being subject to the vagaries of the stock market. Reuters has announced a scheme which awards shares to executives at the beginning of the performance period, which are released at the end of five years, subject to a strong showing on total shareholder returns. No shares are released if Reuters is ranked in the last 25 companies in the FT-SE 100, but all are released if it is in the top 40, with a graduated release between these two points.

Long-term incentive plans are arguably an improvement on share option plans, but risk being discredited if they are introduced as yet another hand-out to top executives on top of what they already got.

Benefits are potentially large. "A maximum award of between 50 per cent and 100 per cent of salary is becoming fairly common," according to New Bridge Street Consultants. Moreover, all but one of the 76 FT-SE 100 and Mid 250 Index index companies that have adopted incentive plans are using them in addition to their option schemes.

Potentially, incentive plans are open to abuse. There is no formal institutional shareholder limit on individual participation and they do not normally require shareholder consent. Moreover, although awards are eventually disclosed as directors' emoluments, this is long after they were awarded and the amounts are often inadequately explained in terms of performance.

This highlights the broader case for more rigorous rules about the disclosure of executive pay. In the US, the SEC, the securities regulator, introduced a requirement in 1992 for each firm to disclose its top executives' pay, together with the firm's performance over the last five years, compared with a relative index of a peer group of companies.

"The implications have been far-reaching," says Peter Chingos of KPMG Peat Marwick. "It puts a significant amount of responsibility on a company to demonstrate the relationship between pay and performance."

Clearer and more detailed explanation of top executives' pay in the UK would, on its own, do little to calm the public's disquiet. But by putting greater pressure on executives to justify their salaries, it might lead to more restraint on basic pay and more carefully designed incentive packages. In the meantime, however, the escalation of top executives' pay will be seen by many as serving nobody's interests but their own.

Additional reporting by Andrew Hill and Andrew Jack.

PIONEERS AND PROPHETS

Max Weber

Max Weber (1864-1920) is often portrayed by enlightened modern executives and organisational thinkers as a villain of equivalent rank to Frederick Taylor, father of the now discredited "scientific" school of management. That reputation is only half-deserved.

Weber, a German lawyer turned sociologist, provided the theoretical underpinning for Taylor's much more practical influence by arguing that the most efficient form of organisation resembled a machine: a bureaucracy replete with hierarchy, rules and controls. He distinguished this "rational-legal" model of organisation, as he called it, from "charismatic" (leader-dominated) and "traditional" ones (those driven by custom and practice).

In their best-seller *In Search of Excellence*, Tom Peters and Robert Waterman took the "villain" view, in tone as much as content. They reported that Weber "pooh-poohed charismatic leadership and doted on bureaucracy". And they blamed him for arguing, as they put it, that "its rule-driven, impersonal form . . . was the only way to ensure long-term survival".

Together Weber and Taylor propounded the idea that the best form of organisation was an inward-looking, "closed" system peopled by rational actors. The "rational actor" part of the proposition was soon thrown out as unrealistic by the likes of Elton Mayo and Chester Barnard, who saw managers as messy, very "social" actors. But the closed-system doctrine held sway for decades.

Only from about 1970 did theory finally catch up with reality, combining an open systems view of organisations with the "social actor" view. Hence today's fashion for the idea that managers and organisations must both undertake lifelong learning.

Weber only half-deserves his modern reputation for two reasons. First, it is never fair to judge with too much hindsight – at the time, his thinking seemed quite reasonable. Second, he was less oppressive than most people realise. He made a relatively enlightened distinction (for his day and background) between power and authority. Power, he said, was the ability to force people to obey, regardless of their level of resistance. Under authority, however, orders were obeyed voluntarily.

The inadequate exercise of authority in most bureaucracies disturbed Weber; he saw the excessive wielding of power as a threat to human freedom and democratic values. He warned that bureaucracy could turn into an iron cage. He even wrote "this passion for bureaucracy is driving me to despair".

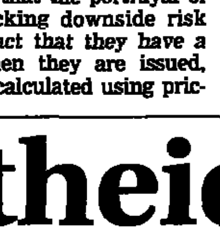
Yet Weber's influence has perpetuated the dangerous metaphor of organisations as machine bureaucracies, rather than adaptive organisms.

As the strategy and organisation expert Henry Mintzberg argues, machine structures can only work well so long as a set of simple, repetitive tasks need to be performed consistently. When tasks grow more complex and change, the machine's regulated efficiency impairs the organisation's effectiveness, impeding creativity and motivation. In today's world, that is a pretty lethal combination.

Christopher Lorenz

Moving out of apartheid's shadow

ADRIAN FURNHAM



I was in the new South Africa last week talking to human resources directors, consultants and managers.

All labelled themselves as "pale males", whose jobs and futures are threatened by new affirmative action initiatives. Apartheid, always a pigment of the imagination, casts a long shadow in the business world of this beautiful country.

Many are worried by the prospects of legislation that would make organisations reflect the demographic status of society. In other words, about 75 per cent of all staff at all levels should be black.

There is talk everywhere of "Africanisation", although what this means is rather unclear. The word Eurocentric is used pejoratively to dismiss any idea or activity that is not favoured and is seen to be the practice of the "white minority racist regime".

Yet the American-originated concepts of victimisation, entitlement, affirmative action and the equality of results (not opportunities or inputs) are embraced with open arms. There is an obsession with the redistribution of poverty. In so many spheres Mandela has shown an excellent example by letting go of the baggage of the past. But the expectations of those who voted for him were fanned by prospective parliamentarians and could never be fulfilled.

Political and organisational leaders find themselves in a dilemma. Support affirmative action publicly and the skilled whites the economy desperately needs continue to emigrate, believing there will be less of a future for themselves and their children. Let the "disadvantaged of the past" remain underdogs and the inflated expectations of the blacks might lead to more revolution.

It all seems rather a no-win situation. Some organisations try to compromise by giving "glass-ceilinged" pale males a hefty financial reward for promoting a young black manager over him or her as second prize. But only the most successful can afford this strategy.

One of the big problems in the new South Africa is the whole process of consultation. The country moved from paucity to plethora; from authoritarian dictact with no consultation at any level to a proliferation of forums where everyone can, must and does have their say however mundane, repetitive or ill-informed. No manager dare not let a representative have his/her say. This can lead to a whole series of problems. Many managers feel intimidated enough to abdicate their responsibility for decisions and allow majority rule to prevail.

Accountability is thus diffused and unfocused because the rules of participation and responsibility are never spelled out. But the most notable result is that all decision-making processes are long and tedious and satisfy no one.

The old South African government was spectacularly successful at creating decision-making structures of Byzantine complexity. Parliaments, boards, committees multiplied, often to the advantage of those that sat on them. Obtaining an approval in the old system was a nightmare because of the sheer complicated nature of the government structures. Alas, not only did business organisations mirror this love of complexity but the new masters, rather than sweeping the state clear have only added to it. People from all persuasions are aware of the fact that entanglement in bureaucratic niceties can be an excellent ploy to hide real issues and promote the status quo. This is not the slash-and-burn approach of revolutionaries nor the work of right-sizing, re-engineering. It remains the analysis-paralysis approach which may work well when one is dealing with constitutions, but is less well suited to the world of making widgets.

As always in times of great change, people's time perspective shifts from the long to the short term. For years, informed South African business leaders were filled with a sense of impermanence and discontinuity. Trapped between the powerful forces of Afrikaaner hegemony and Black African nationalism, English-speaking whites and many Indian entrepreneurs simply kept their heads down and tried to make money. . and get it out of the country. The short-term "let's-live for the day" philosophies still prevail in the "wait-and- see" period. But business needs to invest in, and build for a future which involves a significant cultural shift.

There is a saying in Afrikaans which directly translated means "tomorrow is another day".

It is usually regarded as a statement of optimism about the future, looking forward to the possibility of a new start. There is a lot of business optimism in South Africa. But like all big political and economic metamorphoses it takes time and effort. The economic situation of eastern Europe is a reasonable parallel. In the words of the prime minister "If it isn't hurting, it isn't working."

The author is head of the business psychology unit at University College London.

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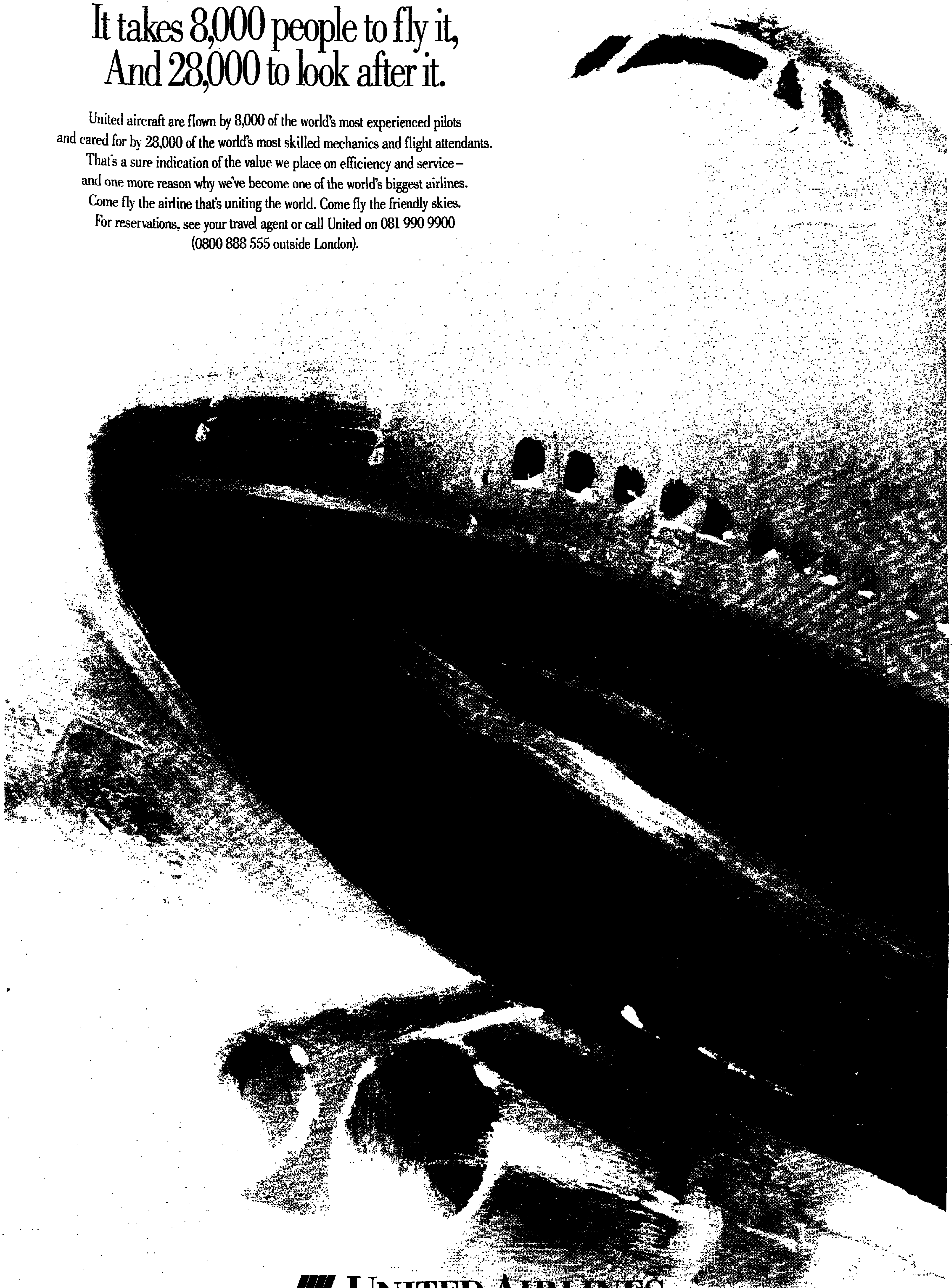

UNITED AIRLINES

PEOPLE

The faceless crime boss who is all too real

This well-educated, well-spoken, cosmopolitan businessman is laughing all the way to the bank, says Jimmy Burns

While officials and ministers from more than 120 countries meet today in Naples at the start of a UN conference on organised international crime, many a big-time crook will be laughing all the way to the bank.

As Liliano Ferraro, a senior official with Italy's ministry of justice, commented last week: "The organised crime syndicates have already held this kind of meeting . . . they just meet in a hotel in eastern Europe and divide the profits."

It has taken the Italians more than five years to generate sufficient interest among UN member states even to talk about the subject. And that, according to the organisers, is probably all they'll do in the Palazzo Real.

Attempts at improving international co-operation on law enforcement remain hampered by a combination of political rivalries, jealously guarded *national legal systems, official* corruption – and rank inefficiency.

In contrast, the organised international criminal fraternity has become increasingly sophisticated; it is adept at extending its operations across frontiers, establishing areas of common interest, and manipulating the world's economic system for hugely lucrative ends.

"International organised criminals have learnt to outwit law enforcement agencies," says James Wyburd, an investigator with MRC Business Information Group.

In the words of John Kerry, a US senator, these global mobsters cause so much trouble that they are "the new communism, the new monolithic threat".

Who are they?

The really big boys are pretty far removed from history's, and Hollywood's, gang*ster self-publicist: Alphonse* Capone, better known as Al – the man whom the American crime writer Jay Robert Nash describes as "a near illiterate who acquired millions and knew not where to spend a dime of it". Capone died of syphilis and paresis of the brain. In the words of one of his gang: "Al's brain just exploded."

Times have changed. *Eduardo Vetere, a former* professor in law who heads the UN's anti-crime branch, based in Vienna, says: "Today's big-time criminals are more serious and dangerous than Capone ever was. The world has become smaller, while the criminals have become bigger. It's a global village, in which crime in one country is easily transferred to others."

There is no one better to ask *about old- and new-time crooks* than Mike Cherkasky. An employee of Kroll Associates, *one of the* world's leading private corporate spook agencies, Cherkasky is a former New York attorney's investigator who helped convict John Gotti, boss of the American mafia, in 1992, and was a prominent investigator in the BCCI case. Cherkasky now helps supervise one of New York's garbage collection services, once the preserve of the mob.

"The mob – blue-collar crim*inals like Gotti – may have* worn Armani suits and cashmere coats, but they used their fists to get to the top," he says. "They had no choice. There's a different kind of corporate criminal around now. He is a cosmopolitan businessman, well-educated, well-spoken, who knows how to move among politicians and transfer his money from Wall Street to London to Paris and onwards if he wants to. *He has plenty of* opportunities, but greed makes him take the criminal route."

The world's leading organised criminals do not give interviews bragging about their activities, as Capone did, daily, to the Chicago press. The meanest use journalists for target practice if they get anywhere near. Behind today's organised criminal lies a veritable machine of hardware and hard men which makes Capone's hoods look like chocolate soldiers.

Perhaps the most colourful prototype of the new international gangster was Pablo Escobar, a collector of giraffes, camels, beautiful women and classic cars, including Capone's Pontiac. Colombia's drug baron turned the smuggling of cocaine into the world's biggest money-spinning bootleg operation. His ability to bribe and corrupt officials went far beyond his *home town of Medellin, where* he is believed to have authorised payments of $1m per day to keep himself out of jail.

Escobar had a private army of 1,000 armed with state-of-the-art military hardware, and *an A-team* of lawyers well-versed in the art of laundering his ill-gotten gains through the world's (mainly off-shore) financial centres.

Escobar was shot dead almost a year ago by the Colombian army, supported by the CIA, the US air force and the US drug enforcement agency. Yet he might have escaped had it not been for rival drug barons turning against him.

Next to the Colombian boys, it is the emerging criminal fraternity in eastern Europe which is likely to cause most worry at this week's conference. In a background paper to the conference, the UN's anti-crime division does not mince words when it comes to the new Russian mafia.

*"Roubles as well as smug*gled arms and valuable metals worth billions of dollars leave the country in an unregulated fashion each month, while there is a substantial inflow of black and grey money," the anti-crime squad states.

The criminal fraternity includes blue-collar villains not so different from the one-time Chicago mobsters. But at his most sophisticated, the eastern European *criminal bribes* officials, terrorises western businessman, manipulates the *banking system,* launders money around the west with front companies and exchange control fiddles, and engages in such transnational activities as prostitution, drugs smuggling and arms trading.

Only last week a nuclear power plant was temporarily shut in Lithuania because of "terrorist" threats.

The Naples conference is a gesture fitting in a city of *magic and death. But that is* all it is: a symbol.

NAMES IN THE NEWS

Abdellatif takes over from Saudi at ABC

When Ahmed Abdellatif, managing director of Riyad Bank, Saudi Arabia's second largest, takes the helm of Arab Banking Corporation next year, bankers expect a period of consolidation rather than revolution from the former deputy governor of Sama, the Saudi central bank, writes Mark Nicholson.

Abdellatif, 59, who will become ABC's chief executive once Riyad Bank has replaced him, is a very different figure *from Abdullah Saudi, ABC's* founder. Saudi, who quit last month after 14 years in charge, is credited with turning the Bahrain-based offshore banking unit into one of the biggest banks in the Middle East with offshoots in Europe and Asia.

But Saudi, despite his name, *is a former Libyan central* banker, and it is widely felt that his nationality was the primary reason for his resignation. Kuwait and the United Arab Emirates, who with Libya are the chief shareholders in the bank, were concerned that Saudi's Libyan connections might lead the US to freeze the bank's assets.

Abdellatif, by contrast, is a friendly, sure-footed Saudi who *was plucked out of his* country's central bank to revive the fortunes of Riyad Bank, an underperforming giant which had never made the most of its influential shareholders and solid capital base. He is credited with doing a good job but as an ex-central banker he is not expected to match Saudi's entrepreneurial management style.

Another sign of the increasing Saudi Arabian influence is the appointment of Sheikh Khalid Ali Alturki, who *has taken over from Saudi as* chairman of ABC International Bank, the group's *London*-based subsidiary. Sheikh Khaled, a leading businessman *in Saudi Arabia's Eastern* Province, has been a director of ABC since 1992 and was *founder director of Saudi* American Bank, the Riyadh-based joint venture *bank of which Citibank is* a leading shareholder. Some Western observers had *expected Stanislas* Yassukovich, the deputy chairman, to replace Saudi.

Champalimaud empire restored

António Champalimaud, the 76-year-old Portuguese entrepreneur who last week bought back another part of the business empire wrested from him after the revolution of 1974, is admired and abominated with equal fervour, writes Peter Wise.

He has been both lauded as "Portugal's greatest industrialist" and loathed as an incarnation of capitalist exploitation. During the Salazar-Caetano dictatorship, he was estimated to control two-thirds of Portugal's *industrial capacity. Starting* with an inherited cement company, he moved into steel, banking and insurance.

Making a fortune was easy the first time round in an economy protected from outside competition and benefiting from captive colonial markets. But *Champalimaud, whose blunt,* autocratic style leaves few people indifferent, believes he has proved his worth as an entrepreneur by rebuilding the group that was seized from him by a short-lived Communist-leaning government. Last week he paid Es37.3bn (£5.74bn) to regain control of Banco Pinto e Sotto Mayor, Portugal's sixth largest bank. He had already *bought back the insurance* company Mundial Confiança in 1992.

Champalimaud once put in a claim for more than Es1000bn in compensation for the nationalisation of his assets but has received only a small fraction of that amount. Instead, he is buying back his Portuguese companies, through a reprivatisation programme begun in 1989, with earnings from Brazil, where he fled in 1975 and built an extensive business centred *on cement and livestock.*

After years in the wilderness, Champalimaud is indisputably back at the top. Portugal's Fortuna magazine ranks him as by far the country's richest individual, with a personal net worth estimated at Es170bn. But he admits Portugal is too small for him and is not expected to make any more important re-acquisitions. He remains in Brazil, leaving the day-to-day management of the family's Portuguese interests to his son Luis, chairman of Mundial Confiança.

Zarella: GM's ray of hope

In its efforts to rebuild its battered US auto business, General Motors has turned to a man who knows a lot about contact lenses and sunglasses, writes Richard Waters.

In a rare move, the car and truck-maker last week turned outside to pick a new head of marketing for its core north American operations. Ronald Zarella had been the number two executive at Bausch & *Lomb, manufacturer of trendy* Ray-Ban sunglasses.

Jack Smith, GM's chief executive, says the automaker was drawn to Zarella by his "enormous multifunctional experience and global brand-building expertise". Despite the overblown rhetoric, this may not be far from the mark: Zarella, 45, has an engineering degree as well as an MBA, and spent the early *part of his career in* engineering and manufacturing jobs. That is no bad thing, given that in future he will have to negotiate with GM engineers over the specifications of new vehicles for the US market.

The brand-building came in Bausch & Lomb's international division, whose sales jumped from $140m to $850m in the five years under Zarella's control.

GM will hope he can rustle up the same magic for its own products, which include venerable but hardly trend-setting names like Chevrolet, Cadillac and Oldsmobile; it has lost ground to family sedans like Ford's Taurus and sport-utility vehicles like Chrysler's Jeep.

Zarella says his job involves "better defining customer segments", then creating and selling products for each. Sounds easy? For GM, whose share of the US market has *slipped to 33.2 per cent, it has* proved anything but.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 20.11.94: Pool purchase price £/MWh	Final Prices for Trading on 23.10.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.23	8.19	8.19
0100	9.20	8.14	8.14
0130	9.20	9.21	9.21
0100	-.--	25.88	29.25
0130	-.--	25.88	29.25
0200	9.20	25.88	29.25
0230	9.23	25.88	29.25
0300	8.20	9.59	12.96
0330	9.19	9.59	12.98
0400	8.18	8.22	8.22
0430	8.09	8.16	8.16
0500	8.08	8.16	8.16
0530	8.08	9.20	12.57
0600	8.08	8.23	8.23
0630	8.08	8.20	8.20
0700	8.08	8.22	8.22
0730	8.08	8.22	8.22
0800	8.08	8.20	8.20
0830	8.12	8.25	8.25
0900	8.18	9.22	12.59
0930	9.21	16.66	30.08
1000	9.65	25.93	29.29
1030	27.37	18.04	21.41
1100	18.16	25.88	29.29
1130	28.18	25.93	29.29
1200	41.12	28.87	32.24
1230	47.00	28.87	32.24
1300	47.00	28.87	32.24
1330	41.12	25.93	29.29
1400	28.36	23.70	27.08
1430	24.03	23.70	27.08
1500	24.03	10.02	10.02
1530	9.22	9.22	9.22
1600	9.22	9.22	9.22
1630	25.21	10.02	10.02
1700	36.03	23.70	27.06
1730	47.34	35.66	39.03
1800	47.34	44.20	47.57
1830	47.34	44.20	47.57
1900	36.03	44.20	47.57
1930	36.03	42.90	46.27
2000	39.20	35.66	39.03
2030	26.71	34.47	37.84
2100	33.12	30.42	33.78
2130	25.21	24.47	27.84
2200	25.11	24.47	27.84
2230	9.69	22.05	25.42
2300	9.65	22.05	25.42
2330	9.22	9.22	9.22
2400	9.19	8.22	8.22

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
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0030	9.22	9.22	9.22
0100	9.65	24.82	28.31
0130	9.69	24.82	28.31
0200	9.65	24.82	28.31
0230	9.22	24.82	28.31
0300	9.21	22.81	26.10
0330	9.19	9.46	12.94
0400	8.15	9.22	9.22
0430	8.19	8.25	8.25
0500	8.19	8.25	8.25
0530	8.12	8.30	8.30
0600	8.12	8.25	8.25
0630	9.19	9.22	9.22
0700	9.23	24.64	28.12
0730	35.30	23.51	26.99
0800	45.49	24.51	28.00
0830	45.49	23.82	27.31
0900	45.50	29.65	33.18
0930	37.30	29.78	33.34
1000	45.51	29.98	33.57
1030	45.51	30.01	33.61
1100	45.51	30.17	33.77
1130	45.51	30.21	33.81
1200	45.51	30.28	33.91
1230	36.68	30.26	33.88
1300	36.88	30.16	33.76
1330	33.67	29.83	33.35
1400	32.43	29.75	33.28
1430	32.43	10.42	10.42
1500	32.43	10.43	10.43
1530	32.43	29.82	33.36
1600	32.64	37.01	40.73
1630	63.32	42.79	47.90
1700	95.07	90.01	101.69
1730	105.37	107.46	121.13
1800	95.32	110.60	123.91
1830	64.10	66.60	96.23
1900	49.03	55.25	61.53
1930	42.13	41.76	46.35
2000	39.26	38.66	42.42
2030	38.40	29.63	33.14
2100	35.76	25.70	29.19
2130	35.76	25.69	29.18
2200	29.74	25.69	29.17
2230	31.74	25.69	29.17
2300	9.24	25.69	29.17
2330	9.20	25.69	29.17
2400	9.09	10.02	10.02

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NOTICE IS HEREBY GIVEN that in accordance with the provisions of the Scheme of Arrangement approved by the Scheme Creditors of ICS Reinsurance Private Ltd ("the Company") Provision of Information Forms have been despatched to Scheme Creditors of the Offshore Insurance Fund ("OIF") of the Company.

Scheme Creditors of the OIF of the Company who have not already received the OIF Provision of Information Forms should contact the Company at its registered office or at fax number + (65) 2246016 for a copy of the Forms.

Scheme Creditors of the OIF should take note that they must complete and return the OIF Provision of Information Forms to the Company by 24 January 1995.

NOTICE IS FURTHER GIVEN that an OIF Scheme Creditor shall be deemed to have accepted and confirmed as accurate the information on any OIF Provision of Information Form received unless the OIF Provision of Information Form is returned amended in accordance with the Scheme of Arrangement.

Dated this 21st day of November 1994

Reinsurance Management Corporation of Asia (Pte) Ltd
Run Off Manager
for and on behalf of ICS Reinsurance Private Ltd

NOTICE TO SCHEME CREDITORS OF THE OFFSHORE INSURANCE FUND OF RMCA REINSURANCE LTD

NOTICE IS HEREBY GIVEN that in accordance with the provisions of the Scheme of Arrangement approved by the Scheme Creditors of RMCA Reinsurance Ltd ("the Company") Provision of Information Forms have been despatched to Scheme Creditors of the Offshore Insurance Fund ("OIF") of the Company.

Scheme Creditors of the OIF of the Company who have not already received the OIF Provision of Information Forms should contact the Company at its registered office or at fax number + (65) 2246016 for a copy of the Forms.

Scheme Creditors of the OIF should take note that they must complete and return the OIF Provision of Information Forms to the Company by 24 January 1995.

NOTICE IS FURTHER GIVEN that an OIF Scheme Creditor shall be deemed to have accepted and confirmed as accurate the information on any OIF Provision of Information Form received *unless the OIF Provision of Information Form* is returned amended in accordance with the Scheme of Arrangement.

Dated this 21st day of November 1994

Reinsurance Management Corporation of Asia (Pte) Ltd
Run Off Manager
for and on behalf of RMCA Reinsurance Ltd

NO: 006642 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF BULLERS PLC AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 13th day of October 1994 presented to Her Majesty's High Court of Justice for confirmation of the reduction of the capital of the above named Company from £22,720,013.98 to £10,398,000.00, and the cancellation of the amount standing to the credit of the Company's share premium account.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the *30th day of November 1994.*

Any creditor or shareholder of the said Company desiring to oppose the making of an Order for the said reduction of capital and cancellation of the *amount standing to the credit of* the Company's share premium account should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any person requiring the same by the undermentioned solicitors on payment of the regulated charge for the same.

DATED this 17th day of November 1994

Lawrence Graham
190 Strand
London WC2R 1JN

Ref: JWN/HS/B29294-980
Solicitors for the above named Company

THE WEIR GROUP PLC

A PETITION having been presented to the Court of Session on 15th November d1994 by The Weir Group PLC a company incorporated under the Companies Acts and having its registered office at 149 Newlands Road, Cathcart, Glasgow, G44 4EX for confirmation of cancellation of share premium account, the Court pronounced the undernoted interlocutor on Thursday 17th November 1994.

Edinburgh 17th November 1994

The Lords, having heard Counsel for the Petitioners, appoint the Petition to be intimated on the Walls in common form; appoint the import of the Petition to be advertised once in the Edinburgh Gazette and once in each of the "Herald" and "Financial Times" newspapers; appoint any party claiming interest to lodge Answers thereto, if so *advised*, within 7 days after such intimation and advertisement.

Sgd. J .A.D. Hope IPD

all of which intimation is hereby given.

Maclay Murray & Spens
Solicitors for Petitioners
3 Glenfinlas Street
Edinburgh

MEDIA FUTURES

Elvis found in cyberspace

Digital jukeboxes are set to have a big impact on the music industry. **Alice Rawsthorn** reports

It was almost exactly a year ago that Rob Lord and Jeff Patterson, a couple of Californian computer science students, launched their digital jukebox, IUMA, alias the Internet Underground Music Archive.

IUMA has since used the Internet to send samples of alternative rock music everywhere, from Arizona to Australia. It charges each band of musicians $20 to $75. Listeners tune in for free. All they need is access to the Internet to download the music on to their computer sound cards before transfering it to an ordinary cassette.

Lord and Patterson are cyber-buffs who used their skills and a $20,000 computer system to reach out to fellow music fans. Their concept has since been copied by hundreds of other digital jukeboxes all over the world, and is attracting the attention of the multinationals that dominate the $30.4bn music industry. The major record companies now recognise that digital diffusion is a serious phenomenon that will, eventually, account for a significant chunk of music distribution. What they do not know is how quickly it will take off – or how to approach it.

"We're working in the dark," says Sara John, director of legal affairs for the British Phonographic Industry (BPI) in London. "There's no doubt that at some stage digital diffusion will become a major part of the music market. My personal opinion is that it could happen very, very quickly."

At present the industry is in the unenviable position of not knowing whether digital diffusion is a golden opportunity to boost profits, or a threat to its financial stability. The global music market is dominated by six companies – Sony, Time Warner, Matsushita, Bertelsmann, Thorn-EMI and Polygram.

If a compact disc sells for £12.99 in the UK, the artist earns 88p, the *producer 44p, the publisher 44p and* the manufacturer £1.05. The retailer takes £3.25 and the record company £4.66 (mostly to cover distribution costs), leaving £2.27 for VAT.

This means that if a record company can deliver a compact disc directly to the consumer's home, it will save the chunk of the £4.66 previously spent on distributing it to the record shop *and* the retailer's £3.25. In short, it will be able to sell the same product for the same price *much* more profitably.

Such calculations have encouraged the major groups to dabble in digital diffusion. Warner Bros, part of the Time Warner group, now offers on-line access to some of its recordings through America Online and CompuServe, the US on-line services.

Geffen Records, a Matsushita subsidiary, also releases material on CompuServe. This summer it became the first major record company to produce a CD-Rom game. Geffen joined with Jasmine Multimedia, a small Californian software house, to create *Vid Grid*, a visual jigsaw that enables the user to assemble videos from artistes including Red Hot Chili Peppers, Aerosmith and Jimi Hendrix.

These projects are still seen as experiments. The current generation of on-line music services is not sophisticated enough for main*stream use. It can take as long as 15* minutes to download a three-minute song from IUMA on the Internet. The sound quality is patchy (more like FM radio than compact disc) and the visuals limited to black and white.

Some of the new digital diffusers – such as pHreak, a dance music format run by Intermedia, a multimedia consultancy in London – deliver their services by computer modem rather than the Internet. This means that pHreak has a more limited market than the Internet's web of 25m users, but it can make the most of the vivid colours and sharp definition offered by computer graphics.

The Internet will become progressively more efficient. Digital junkies will also soon be able to transfer music to compact discs, rather than cassettes, with the launch of recordable video-CDs. The expansion of digital cable radio, now a fledgling medium in the US and UK which relays dozens of specialist music stations to the home on cable TV *connections*, will provide another digital delivery system.

Each home could eventually have its own "virtual record shop". The viewer would be able to order an album by remote control via a digital cable box fitted to the TV set, pay for it by credit card and record it on to a compact disc, rather than *buying it from a retailer.*

However, there is a risk that, rather than benefiting from digital diffusion, the record companies will *be marginalised* by it. At present, their major artistes need them to secure access to their vast retail distribution systems. If digital diffusion became a major medium, the artistes might be tempted to break away and handle their own distribution. There is also the threat that digital diffusion will continue to develop in its current fragmented form as an underground movement with devastating consequences for the music industry's revenue.

The first wave of digital diffusers are effectively pirate operations. They should, in theory, be licensed to "sell" music by the appropriate industry authority, such as the UK's Performing Right Society (PRS). They should also pay royalties to that authority and the record company. Otherwise they could simply buy one compact disc and send it to be copied by thousands of subscribers.

The PRS estimates that "literally hundreds" of on-line services have surfaced in the UK this year. So far it has been approached by only three and has licensed one, Cerberus, which received official sanc*tion last week.*

"We're not Luddites," says David Uwemedimo, head of legal affairs. "We encourage new technology within the regulatory system. We want to find a fair way for these new services to pay for their music. We're still working on it."

Time is running out. The BPI's research suggests that once people have access to on-line services such as digital cable radio, their expenditure on compact discs and cassettes declines dramatically.

"Record companies have historically made a lot of money from distribution and if they don't act quickly they could lose it," said Ms John. "The problem is that, as usual, technology is moving much faster than the law – and the industry's process of thought."

Red Hot Chili Peppers: part of the CD-Rom game

Mosaic: software sprat to catch an Internet mackerel

By Louise Kehoe

California's Netscape Communications has tens of thousands of eager customers for its first product, a "navigator" for the global Internet. Which is not surprising, *because this Silicon Valley* software start-up company is handing out free copies of its Mosaic computer program to anyone who asks.

That might seem an odd way to go about building a new business, but Jim Clark, chairman and co-founder of Netscape, has his eye on a prize far bigger than the revenues he may be sacrificing today.

He believes that giving away the Beta version of the Mosaic navigator will help garner support for Netscape's much more ambitious plans to transform the Internet – a global network of millions of computers – from a playground for computer enthusiasts into the primary route for electronic commerce.

Until earlier this year, Clark was an Internet sceptic. As chairman of Silicon Graphics, a leading manufacturer of computer work-stations he founded in 1982, he had been pursuing interactive television as the future path for the information superhighway.

Then he met Marc Andreesen. A 23-year-old cyber-star computer science graduate, Andreesen created Mosaic, a software program that enables even computer novices to explore the Internet's vast resources.

Since Andreesen and a group of fellow students working at the University of Illinois' National Center for Supercomputing Applications launched Mosaic on to the Internet last year, it has been used by an estimated 2m people.

"I realised that Mosaic on the Internet was the way to create all sorts of interactive multimedia services," says Clark. "While the television industry is moving slowly toward interactive multimedia services, the Internet is spawning more and more sophisticated applications every day."

Clark resigned from Silicon Graphics and formed Netscape last April, hiring Andreesen and half a dozen other former students from the University of Illinois to get the venture off the ground.

Starting from scratch, Clark claims, the team created a faster, more robust version of Mosaic as well as a "NetSite" program for businesses that want to create interactive services on the Internet.

Like the original Mosaic, Netscape's software provides Internet users with a relatively simple way to find information using "hypertext" linking between different documents and databases.

By clicking on a highlighted word in a hypertext document, you are automatically transferred to related material which might be stored in the same computer data base or in another one half a world away.

Were you to read this article via the Internet, for example, there would *probably be opportunities to refer back to* other FT articles about the Internet. You might also be able to click on the word Mosaic to access the NASC Internet server, or pick Netscape to download the company's free software, or switch to Silicon Graphics' Internet server and read about its products.

"When you click on a hyperlink, you initiate a process," says Clark. "Today that is typically the retrieval of a document, a movie or an audio recording."

The Internet is essentially a set of standards: communications protocols that define how data is moved from one computer to another, says Clark. "The Internet is going to be the *de facto* standard for all kinds of interactive multimedia services."

Just as the establishment of technology standards spawned the personal computer revolution, Clark sees these Internet standards as likely to create vast opportunities in interactive multimedia services. "Those companies that are writing *applications today are going to* be best poised for the opportunity to create interactive digital businesses in the future."

However, there are several technical barriers that must be overcome before the Internet is ready for the mass market. Today, the infrastructure of the Internet is primitive, says *Clark. Standard telephone* line access is too slow to deliver video, and it takes several minutes just to retrieve a colour picture. But as telephone and cable TV companies upgrade their networks, the Internet will become faster and more versatile, he predicts.

Partnerships with telephone companies are a central element of Netscape's plans to bring the Internet to a bigger audience. "By early next year there will be several telecommunications companies announcing that they provide Internet-related services," says Clark. "I call it Internet dialtone. It will become one of the basic services that "phone companies offer".

Security is another problem on the Internet. Today there is no way of ensuring that sensitive information such as credit card numbers can be protected from computer hackers – a serious impediment to electronic commerce.

However, using advanced encryption technology from RSA Data Security, a *leader in the field, Netscape has created a* secure version of its software, which it aims to sell to companies that want to do business on the Internet.

The ability to track and bill Internet users is another essential element of Netscape's plan to help usher in electronic commerce. For electronic publishers, one of the most important things is building in the ability to track subscribers in order to attract advertisers, says Clark. "We believe that advertising is an absolutely fundamental part of this."

The biggest barrier that Netscape faces, however, is persuading businesses to ply their wares in the electronic marketplace. Handing out free software that draws tens *of thousands of potential consumers to the* Internet is merely the first step.

ARCHITECTURE

Designed to work

Colin Amery discusses the future for offices and factories

Major industrial companies often find themselves with an embarrassment of old buildings that have outlived their purpose and would be wasted if they could not be modernised. This is a special problem in Britain, where the first industrial revolution began and where the pace of industrial change quickly outstripped the usefulness of old plant.

The changes that automation brought to heavy industry represent only one aspect of the evolution of working patterns in the *late 20th century, for* advances in computerisation and information technology have only just started to change the way Britons work in offices.

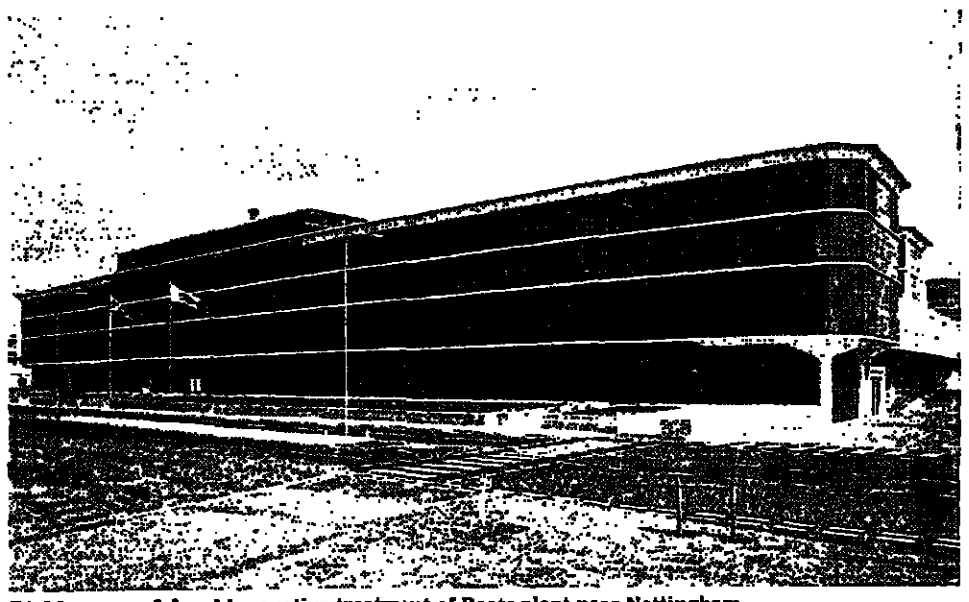
The future shape and design of offices and factories is far from clear, and it is to architects that we must look as innovators and leaders of the design revolution.

Last week saw the annual Office of the Year award, sponsored by the British Institute of Facilities Management and Du Pont (UK). Memorably, the *judges* described the office building as the "all too immovable object" in any company's portfolio of assets.

It is clear that the development of office design in Britain has improved considerably even during the recession, and one area of noteworthy improvement has *been* the involvement of the workforce in the process. Consultation between architect and client is the key to successful design, and it is vital that discussion about the working environment occurs throughout any *organisation.*

Simple facts emerge with startling clarity when architects take the time to ask questions. Underwriters, for example, would be a happier breed if Sir Richard Rogers had let them see out of and open windows in the Lloyd's building in the City of London. Air-conditioning and the regular but scarcely discernible flicker of a flourescent tube often cause headaches or, at the very least, a sense of edgy imprisonment for employees.

It is the feeling that office workers have no control *over* their working environment that causes unhappiness.



Highly successful and innovative treatment of Boots plant near Nottingham

Architects hate to see the mass of pin-ups and technicolur photographs of children, wives and mistresses that adorns most work-stations. But this reaction is an overly purist one, and indicates a wish to conceal anything that might reveal that life itself is not particularly well designed.

It is fascinating that recent surveys by estate agents in London have confirmed what we have known for a long time – that people prefer to be able to open windows, see the world and breathe real air even if it is a bit noisy and polluted. Fashion plays its part: it was not so long ago that office builders and developers were equally convinced that workers preferred the "deep plan" with sealed windows and little access to views of the outside world.

Of course, in reality it is more likely to be the enormous expense of running and maintaining air-conditioning plant that will dictate a return to a more natural and less profligate office environment.

The winner of the Office of *the Year award, rather surprisingly,* was a huge purpose-built complex for Lloyd's Bank: Canons House, on an 11-acre site in the dockland area of Bristol. Nealy 1,500 people work in this building, handling retail banking business. The building was designed by Arup Associates. It has a distinctive classical architectural look on the out*side but comprises conven*tional energy-saving office spaces on the inside.

A more interesting proposition was the offices of Hamilton Oil in London, where the company has faced a problem common to many companies – the conversion and upgrading of an existing and inadequate building. Hamilton occupies part of Devonshire House in Piccadilly, a mid-20th century office building. Inside it is a forest of structural columns: outside, there is ancient fenestration that needed replacing. Traffic noise in central London was also a problem in a building that faces on to Piccadilly.

Boots, in turn, is a company that should be glowing – in *its* case for a highly successful and *innovative treatment of* one of its large industrial plants near Nottingham. One of its factories on the site at Beeston was a pioneer when it opened in 1933. In fact, it was seen by English Heritage as a building of such historical and *architectural importance that* it gave it that mixed blessing, a Grade I listing. This is an extremely rare distinction for an industrial plant, and acknowledges the importance of the design by Sir Owen Williams, which has been described as "a *milestone* in concrete architecture in Britain."

*The factory has been in con*tinuous operation since 1933, and was designed to allow a complete production process to flow north to south along the length of the building. Owen Williams' design was highly innovative for the 1930s. The production line dictated the length of *the plant, and the* need for as much natural light as possible produced the design of a concrete roof with 150,000 glass discs. There are heating tubes in the glass walls to prevent condensation (something that has not yet reached the average British bathroom mirror), and cantilevered roofs offer loading bays as large as 28ft with no supports.

Boots is to be commended for successfully carrying out a three-year, £20m renovation of this listed industrial master*piece. The company has proved* that a building that is well designed for a specific purpose in the first place, and takes account of basic needs for light and air, has a life far beyond that of a property developer's speculative, low-cost offering.

The future for the design of places of work depends on the rate of technological change. But the recent office awards, and the experience of Boots, show that companies should look to good designers from the start, because that is the *way to ensure long life and* flexible usage in return for substantial investment.

BUSINESS TRAVEL

Late again

The European summer saw a deterioration in the length of delays on air routes, the Association of European Airlines said last week. It said it could confirm what air travellers had "already been noticing: that delays are on the increase again".

The association represents 24 scheduled European airlines. In its quarterly punctuality review it said that the proportion of flights delayed in the July-September period by more than 15 minutes was 15.7 per cent, against 12.2 per cent in the second quarter and 13.5 per cent in the same period last year.

The association said it had been a "tremendous summer for passenger demand". But there was another side to the coin: congestion. "Record numbers of passengers have passed through airports. Some of those airports have been stretched to the limit." The AEA reckoned that factors related to air traffic control were the biggest bug-bears, along with mis-handling of passengers' baggage.

Safety first

An airline passenger group in the US has advised its members to avoid flying on aircraft with fewer than 31 seats because records show they have a far higher fatal accident rate than bigger aircraft.

David Stempler of the International Airline Passengers Association said that one reason for the disparity was that the US Federal Aviation Administration allowed operators of aircraft with fewer than 31 seats to fly under less stringent safety and operating rules.

He said about 65 per cent of accidents for smaller commuter aircraft occurred at night, in bad weather, or both – about twice the rate for jet aircraft.

Russian flight fears

The world's airlines still want to expand into Russia, despite a series of fatal crashes that have fanned concern about the safety of Russian airspace, an international aviation official says. Pierre Jeanniot, head of IATA, which represents some 300 airlines, said in Moscow that developing air corridors over Russia was important for the world aviation industry.

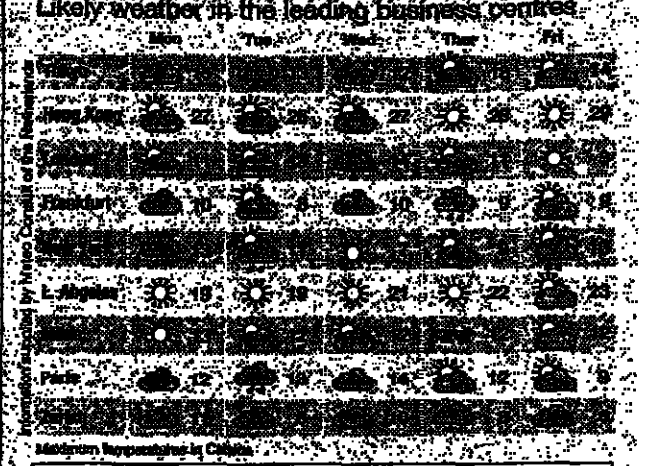
The US State Department issued a warning about using Russian airlines last July. It withdrew the warning last month. More than 300 people have died in Russian air crashes this year, including 75 when a western-built Airbus A-310, operated by an Aeroflot subsidiary, crashed in Siberia last March.

Jeanniot declined to comment in detail on Russian civil aviation and its safety record, but said he was encouraged by a recent study on safety inspections carried out by the US Federal Aviation Administration at the request of the Russian transport ministry. He said IATA had been working with Aeroflot to upgrade Russian aviation to international standards.

New airport for Berlin

A giant new airport for Berlin should be built far outside the city because sites closer to the centre were unsuitable, an official study by Brandenburg state says. Nuisance to residents and environmental concerns meant expanding Berlin's Schoenefeld airport eastward was not a good idea. The report advises against Schoenefeld because many people would have to be rehoused and the extra passenger traffic would cause chaos. It recommends two outlying sites – Sperenberg or Jueterbog – both about 31 miles away. Berlin has three airports: Tegel (over-crowded), Tempelhof (rarely used) and Schoenefeld.

Likely weather in the leading business centres



Smart Guide: **Bangkok**

Jaunt through the jams

Victor Mallet gives a few tips

What is the best area in which to stay?

Pick a hotel as close as possible to where you will be working. The notoriety of Bangkok's traffic jams is richly deserved. If your business takes you all over the city, try hotels on and around Ratchadamri Road. That way you should be able to reach government offices, the main business districts and the airport without great difficulty.

On holiday, stay next to the river at The Oriental. It is more fun to look at exotic rice-barges and river-taxis than the concrete shop-houses and tower blocks that dominate the rest of Bangkok.

Hotels?

The Regent on Ratchadamri Road is efficient and quiet and has an Asian flavour that distinguishes it from the rest of the world's wearisomely familiar five-star hotels. The Hyatt next door looks like an ugly glass and concrete wedding cake from outside, but is pleasant enough within. Next to it is a Hindu-cum-Buddhist shrine where Thais pray to win the lottery.

On the other side of Lumpini Park is the Dusit Thani. Once Bangkok's tallest building, this 1970-vintage hotel looks its age, but is arguably as central as you will find. Not far away on Sathorn Road is the Sukhothai, a new and well-designed hotel with ponds and statues that will calm frenzied executives.

Officially, all of these cost between 5,000 and 6,000 baht a night, but discounts are available if you ask.

How about restaurants?

Try not to eat in hotel restaurants. Thai food – fresh, simple, spicy, cheap – is usually better at a street stall than in a gloomy coffee shop.

It is hard to go wrong with Thai food outside the hotels. Among the better Thai restaurants are Ban Chiang (Srivieng Road) and Ban Khun Por (in Siam Square) – both are in wooden Thai houses.

For particularly spicy fare and north-eastern Thai music, try the outdoor Ban Lao (Sukhumvit 36).

If your bowels cannot take any more chilli, Bangkok has plenty of Italian, Indian, Arab, French and Japanese restaurants, and more besides. For superb Kobe steaks and Japanese beer, the smoky Misu's Kitchen on Patpong 1 is a must.

Entertainment?

Bangkok is as notorious for its night life as for its traffic – again, justly. Patpong is the best-known drinking, whoring, ogling and night-time shopping area in Bangkok, possibly in the world – but is not the only one. Nor is licentious behaviour restricted to portly western men. The Japanese have a street of bars in Patpong; unless you look Japanese, you will probably not get past the door.

Other entertainments are scarce, but you could watch a Thai kick-boxing match at Lumpini stadium. Cinemas are irritating: many films are in English with Thai subtitles, but the sound quality is often poor and the words inaudible.

> **Do not point your feet at people, touch them on the head, or joke about the Thai royal family**

What local quirks should I be aware of?

Do not point your feet at people, touch them on the head, be impatient or loud, or joke about the Thai royal family. If you bribe, bribe the right person at the right time.

Obey these rules and you are unlikely to get into trouble. Thais say their culture is non-confrontational, but you may dispute this if you watch people driving. And in a recent A-Z business guide to Thailand, A was for Assassination.

Transport?

This is the bane of Bankgok. Be flexible. Leap out of your taxi and walk if it helps you reach a meeting on time, but remember that the city is hot, humid, short of pavements and sometimes flooded with sewage.

On some routes, you may find it quicker to use a river-taxi or canal-boat, but it pays to know exactly where you want to get off. Many businessmen think nothing of using a motorcycle-taxi, but weaving through the traffic on these machines is as dangerous as it is quick, and the air you breathe is thick with fumes.

Suppose I have a spare day?

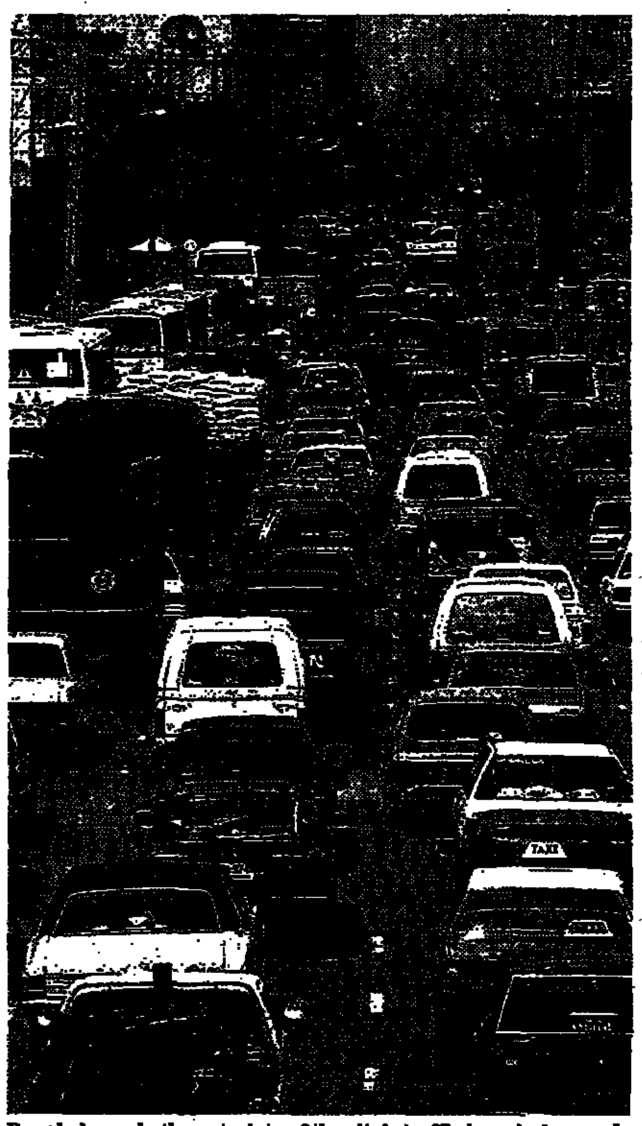
Take a boat up the Chao Phraya river (or a bus) to Ayuthaya, the temple-rich former capital of Thailand sacked by Burmese invaders.

If you prefer nature to culture, drive to the Khao Yai national park at dawn and walk in the forest. In the middle of the park are some food stalls serving a dish listed on the menu as "Untold Miseries Pork".

● *Thai Airways is increasing flight frequency and capacity to Europe, as well as adding Istanbul as a destination during the current winter season (to March 25), the airline said.*

It will raise flight frequency to Europe from 34 to 43 flights a week, including a twice-weekly service to Istanbul and Athens and seven a week to Paris and Frankfurt. It will also fly four times a week to Copenhagen and three times to Stockholm.

An increase in regional services will include seven flights a week to Kunming in Yunnan province, southern China.



Bangkok crush: the notoriety of the city's traffic jams is deserved

How to order room service and save time

What do you do after you have placed an order with room service? A shower is out of the question – the food will arrive soon and you do not want to answer the door wrapped in a towel. Telephoning home is not a good idea – you might be interrupted, *writes Michael Skapinker*.

You could do some work, but you are jet-lagged and hungry. So you lie on your bed watching CNN, noting how difficult it is to fill a 24-hour news service. Fifty minutes later, your order has still not arrived. You are seething at the wasted time.

You telephone room service to complain. You begin: "I ordered some food nearly an hour ago . . ." only to be interrupted by a knock on the door. "Ah, I think that might be it," you say weakly.

Some hotels say they understand how you feel. Jane Mackie, European marketing manager at ITT Sheraton, says interviews with guests at European hotels showed that they wanted room service 24 hours a day, and more control over when it arrived.

She says Sheraton plans to introduce an appointments system, allowing guests to specify what time they want their room service order to be delivered. Guests who want to go for a swim can ask for orders to arrive in exactly 90 minutes, for example.

When they go out in the morning, they can say they want their order to arrive at a specific time in the evening. There will be a minimum delivery period.

Kurt Ritter, chief executive of Radisson-SAS hotels, says he has come up with another answer. At the company's hotel at Stockholm rail station, you can order food from the McDonald's next door.

The order arrives in four minutes. The service is available 24 hours a day. Your bill is debited and the hotel settles with McDonald's later. You can order healthier fare from the hotel's restaurants, but Ritter says his guests seem to prefer McDonald's.

Plague outbreak in China denied

Reports of an outbreak of plague in more than 200 cities in China were a "fabrication", although seven cases of the disease had been detected since June, an official report said.

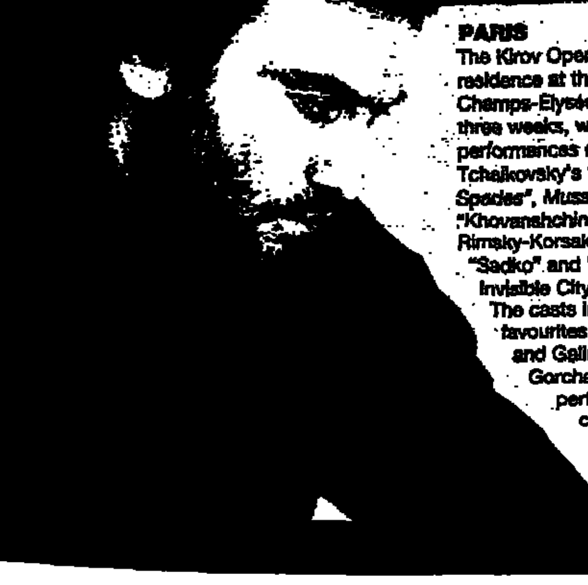
Xinhua news agency, quoting an unnamed health official, said the disease was immediately brought under control after the cases were detected in remote regions of Tibet and Qinghai province, in south-western China.

The report said China had an average of 10 cases of plague a year, having tamed the disease in 1955.

هكذا من الأصل

ARTS

OPENINGS

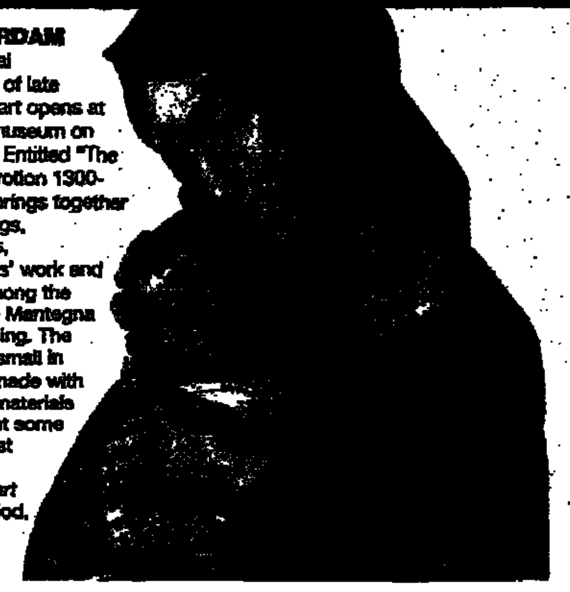


PARIS
The Kirov Opera is in residence at the Théâtre des Champs-Elysées for the next three weeks, with staged performances of Tchaikovsky's "The Queen of Spades", Mussorgsky's "Khovanshchina" and two Rimsky-Korsakov rarities - "Sadko" and "Legend of the Invisible City of Kitezh". The casts include Kirov favourites Olga Borodina and Galina Gorchakova. All performances are conducted by Valery Gergiev (left).

BOLOGNA
The Teatro Communale has chosen one of Rossini's lesser-known comic operas, "Il Turco in Italia", to open its new season on Saturday. The production brings together a number of eminent Rossinians, including the conductor Evelino Pido, the soprano Mariella Devia and the tenor Rockwell Blake.

NEW YORK
City Ballet's winter season opens tomorrow at the Lincoln Center and runs till February 26. The first night gala features the world premiere of a new pas de deux by Peter Martins, followed by a week of repertory performances. George Balanchine's production of "The Nutcracker" will run throughout the Christmas period, starting on November 30.

AMSTERDAM
An unusual exhibition of late medieval art opens at the Rijksmuseum on Saturday. Entitled "The Art of Devotion 1300-1500", it brings together 50 paintings, miniatures, goldsmiths' work and prints. Among the artists are Mantegna and Memling. The objects - small in size and made with precious materials - represent some of the most beautiful works of art of the period.



LONDON
Jazz eclectic, pianist Muhal Richard Abrams begins a UK tour on Friday at the Queen Elizabeth Hall. An inspiring experimentalist and composer, Abrams is also an original interpreter of standard material. Which parts of his vast repertoire the eight-piece orchestra will perform on this rare visit is anybody's guess - but it could be the gig of the year.

Of elegance and mild subversion

Alastair Macaulay reviews plays at the never-timid Glasgow Citizens

The Glasgow Citizens Theatre has a feel like no other theatre in Britain, but a feel that is a lot like the rest of Glasgow: lively, fashionable, unaristocratic, outgoing, and mildly subversive. The foyer alone has a unique blend of vitality and elegance. But the real excitement derives from the stage. Stages, rather; for the Citz, since 1992, has housed not one theatre but three. Repertory is adventurous, productions imaginative. I have had bad evenings there (few), but not timid ones.

Recently, Philip Prowse brought together Rupert Everett and four other actors to perform both Noel Coward's *Private Lives* and (joined by three more actors) Tennessee Williams's *The Milk Train Doesn't Stop Here Anymore*. Prowse is a style merchant; you could never watch a Prowse production and forget that someone had staged it. For these two, his stage was black and white, with a few other very strong colours (like shocking pink); the maid in either play is acted by a man; both plays are set in the present day; and the already stylised parlance of the leading characters is stylised more intensely. But the actors are stimulated by swapping between two such dissimilar vehicles, and the plays are alive. Both were far more brisk, funny, and fresh, than Prowse's current West End *Lady Windermere's Fan*.

No one went further in swapping roles than Everett. Remarkably, in neither role did he fully reveal his most bankable asset – his film-star looks. In both, he seemed to be in disguise, and each disguise was riveting, entertaining, surprising. In *The Milk Train*, he was the dying ex-beauty Flora Goforth; in *Private Lives*, he played Victor, Amanda's humourless new husband, created in 1930 by Laurence Olivier. His Victor was a deliberately two-dimensional romp, played with a crusty Prince Charles accent and thick specs. I prefer Coward played 3-D, but Everett's cartoon creation was a load of fun. His Flora, however, was one of those rare travesty performances where a man uses his physical and vocal force not to distort a female character but to intensify it.

Everett has large-scale authority onstage. He can command both superficial languor and underlying hysteria, and he uses the full long-limbed physique to great effect. I know that everyone is playing Hamlet these days, but might not Everett reveal more in the role than most?

Flora Goforth, in *The Milk Train Doesn't Stop Here Anymore*, is one of Tennessee Williams's monstrous regiment. She is trying to finish the memoirs of her racy life while only half admitting that her death is nigh; she is mysteriously visited by Chris, a younger if not young man, a dark angel who prepares her, as he has apparently prepared sundry other women of her international circle, to meet death with a good grace; and meanwhile her time is wasted by another chatty virago, "the Witch of Capri" (splendidly performed by Georgina Hale). All Flora thinks about is life; she even keeps contemplating Chris as a potential lover.

Williams believed "the play will come off better the further it is removed from conventional theatre", and Prowse surrounded it with various kinds of artifice. Whenever Flora uttered "a good line", it was followed by instant (taped) applause, in which he briefly revelled – before suddenly cutting it dead with a gesture. Prowse also upped the homo element in the supporting roles. You can imagine the new connotations this gave a play that was already a meditation on the loves and life that are past, and the death that approaches all too fast. And yet the effect made the play not morbid but bracing.

Private Lives, though in modern dress, was presented by Prowse as the brittle retreat into escapism that it indeed is. "Jagged with sophistication" was the style. Greg Hicks was the harshest Elyot I have ever seen, with his cut-the-crap angry drawl; and his characterisation was three-dimensional enough to set the tone for the whole production. The rest were slightly more cartoon-like, but no less vivid. Sophie Ward, with her Grace Kelly looks, was a robust, blasée, vituperative Amanda, and Victoria Scarborough an amusingly doll-like Sibyl. It was astonishing how often the cast charged past surefire laugh-lines but revealed the comedy elsewhere. This *Private Lives* was all the more refreshing because it made no attempt to be definitive.

Meanwhile, in the Stalls Studio, Antony McDonald's staging of *Gertrude Stein* turns out to be nine plays and a recipe by the great American avant-garde writer. Caesar kisses every night. Lucrezia Borgia had no cousins. Three sisters who are not sisters. To hear Gertrude Stein is, at first, to plunge into nonsense, and she sounds like Lewis Carroll's daughter and heir. Yet the words never lose their sense. The opposite, rather. Stein sounds wonderful, but she never employs words for sound alone. Listening, we are unusually aware of the meanings of each word – often she recycles sentences, with slight variations, to extract maximum ambiguity from them – and it is the fact that we understand that makes us so deliciously baffled.

McDonald, one of the most original designer-directors on the British scene, fills the stage with a little cartoon house and its solid, tilted, wooden shadow on the floor. Four microphones hang from the ceiling, into which the five actors sometimes speak. But, wherever we hear the voices coming from, we are never in doubt that this is live theatre. Two of the cast are outstanding: Paola Dionisotti and Siobhan Stanley. Dionisotti's wonted vigour and economy pay great dividends here. Stanley has wit, elegance, mordancy, pathos, stillness, and perpetual ambiguity. I would like to see her now in a single large role. In Stein, she perfectly leads us into the mesmerising rings and enigmas of the language.

Gertrude Stein is in repertory at the Citizens Stalls Studio, Glasgow, until December 3.

Rupert Everett as ex-beauty Flora Goforth in The Milk Train Doesn't Stop Here Anymore

*Huddersfield Festival/***David Murray**

Gloria: the sweet and sour porker

Though it may seem an improbable place to anyone who never ventures north of Watford, Huddersfield has boasted Britain's pre-eminent festival of contemporary music for many years now. This year's festival, both wide-ranging and intensive – for as usual it highlights particular composers, by way of supplying focus – is unusually rich, and it has something special to celebrate: a new theatre.

Since the old Victorian Theatre Royal was demolished more than 30 years ago, Huddersfield has had none. In the new Lawrence Batley Theatre, constructed within an elegant 1819 building which used to be a huge chapel, the town now has just what it needed, and so does the festival. The interior is trim, airy, acoustically excellent, comfortable to sit in (it holds an audience of about 475 people), and pleasing to behold. For good measure there is a smaller studio theatre, too. The festival is eagerly making plans for at least one contemporary opera per year.

The inaugural choice was H.K. Gruber's *Gloria*, "a pigtale" – *Gloria von Jaxtberg* in the original German, but this porcine comedy-fable has been transferred in Amanda Holden's bright translation to the Pennines. Not, however, the staging, which is a co-production with Opera North and the Big Bang Theatre Munich; it was Helmut Danninger of the latter company who first wanted the opera from Gruber, and he has directed it as for the Bavarian audience who will soon see it at their Volksoper. That, I think, has proved a mixed blessing.

The story is sour-sweet and simple. Gloria, the prettiest pig around, is rejected by her jealous sty-family, but dreams of a handsome prince who will find her. Never having learned the meaning of "sausages", she mistakes the farmhand who comes to lead her to the slaughter for her romantic saviour; there is a nick-of-time rescue. All the roles are taken by five singers, and the curious little band consists of seven players doubling on various wind and percussion instruments, a harpist and a single violin (rather a virtuoso part).

The composer draws bracing, racketty, quirky sounds from his orchestra. Superficially there are plain echoes of Kurt Weill, but Gruber's off-centre basses, cunningly irregular rhythms and cross-tonal tricks are very much his own. There is grateful music for the singers, though – in this account, at least – with less lyrical glow than in his splendid concerti. After two hearings, I still think that Danninger's production and Marc Deggeller's designs do the singers no favours, not at any rate for a staging in Britain.

Despite the transposition to the Pennines, with suitable local references, the costumes are cod-Bavarian and mostly in shiny black and white plastic. In fact pigs and farmhands alike look to a British eye like German fashion victims (not to put too fine a point on it), poor, pretty Gloria as much as the rest. The gestures and movements visited upon the hard-working actors are of a mock-naive archness that recalls the worst of children's television, as do the sets. Character is barely sketched, because everyone is kept so busy hopping, waving and laboriously shifting extraneous props.

One can imagine *Gloria* in a far crisper, wittier production, and some day we must hope to see one. Mary Hegarty's sweetly vacuous heroine has her moments, and the other Opera North singers work hard. Stefan Asbury conducts an excellent band very efficiently.

Among several concerts on Saturday – the Huddersfield programming is always generous – two stood out. The Danish Wind Quintet, wonderfully cultivated players, delivered very early, faded Henze, but also wistful Hans Abrahamsen (their compatriot), three evocative Jonathan Harvey fragments from 1978 and a sort of vaudeville by another Dane, Mogens Winkel Holm. The real discovery was an "Eichendorff-quintett" by Gruber's colleague Kurt Schwertsik, tiny pieces after single lines by that poet: every one odd, magically expressive and perfectly musical.

That evening brought the Cambridge New Music Players, conducted by Paul Hoskins, who confirmed their rapidly growing reputation. Besides early, pungent Maxwell Davies (*Antechrist*) and recent chips from the workbench of Harrison Birtwistle ("Songs by Myself", all with a sullen gleam), there were several young Cambridge products of varying promise. Far and away the most striking was *Living Toys* by Thomas Ades, tingling, brilliantly intricate and fascinating – just as Max Loppert reported here several months ago. A lot of people are watching the progress of young Ades's career with avid interest; some others, no doubt, with envy too.

Festival continues until 27 November (Festival office 0484-425082); *Gloria visits Newcastle, Aldeburgh and Leicester before reaching the Queen Elizabeth Hall on December 8*

INTERNATIONAL ARTS GUIDE

■ PARIS

CONCERTS
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50 Myung-Whun Chung: conducts the Orchestra et Choeurs de l'Opéra National de Paris for their performance of Verdi's Requiem at 8 pm; Nov 21
OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24 Kitege: opera by Rimsky-Korsakov. Director Valery Gergiev at 7.30 pm; Nov 23
La Dame de Pique: opera by Tchaikovsky. Director Valery Gergiev at 7.30 pm; Nov 25, 26, 27; Dec 1, 2

La Khovantchina: opera by Mussorgsky at 7.30 pm; Nov 29, 30; Dec 3, 4
Sadko: Rimsky-Korsakov opera. Musical director Valery Gergiev at 7.30 pm; Dec 6

■ BERLIN

OPERA/BALLET
Deutsche Oper Tel: (030) 3 41 92 49 Dialogues des Carmélites: by Poulenc, in three parts. A new production directed by Günter Krämer. Conductor Jiří Kout at 7.30 pm; Nov 23, 25, 29; Dec 1

■ BONN

OPERA/BALLET
Oper Der Stadt Tel: (228) 7281 Il Guarany: by Antonio Gomes, in Italian with German surtitles. Conductor John Neschling, production by Werner Herzog at 8 pm; Nov 30
La Fanciulla del West: by Puccini, in Italian with German surtitles. Conductor Eugene Kohn, production by Gian-Carlo del Monaco at 7 pm; Dec 2 (8 pm)
La Traviata: by Verdi. A new production conducted by Eugene Kohn, with production by Jürgen Rose. In Italian with German surtitles at 8 pm; Nov 22, 26 (7 pm); Dec 4 (7 pm)
The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced and choreographed by Youri Vámos, conductor Michel Sasson at 7 pm; Nov 27; Dec 1 (8 pm), 3

■ ROME

THEATRE
Teatro Dell' Opera Tel: (0039) 6 481601 L'Arlesiana: by Bizet at 7 pm; Nov 25, 26, 27

■ AMSTERDAM

GALLERIES
Rijksmuseum Tel: 020 673 21 21 Art of Devotion 1300-1500: major winter exhibition focusing on the spiritual function of objects in the medieval period; from Nov 26 to Feb 26(not Sun)
OPERA/BALLET
Het Muziektheater Tel: (020) 551 89 22 Rosa: new production of the opera by Andriessen. Directed by Peter Greenaway at 8 pm; Nov 22, 25, 28

■ BRUSSELS

CONCERTS
Philharmonique de Bruxelles Tel: (02) 507 84 34 Koninklijk Concertgebouworkest: conducted by Sir Georg Solti play Beethoven, Bartok and Kodály. With pianist Evgeny Kissin at 7.30 pm; Nov 23, 26, 29; Dec 2

■ LONDON

CONCERTS
Barbican Tel: (071) 638 8891 *Mozart: Idomeneo: Sir Colin Davis* conducts the London Symphony Orchestra at 7 pm; Nov 25, 27
Festival Hall Tel: (071) 928 8800 Philharmonia Orchestra: with conductor Charles Dutoit and pianist Peter Jablonski play Tchaikovsky (piano concerto No. 2) and Shotakovich (symphony No.5) at 7.30 pm; Dec 6
Russia Old and New: Royal Philharmonic Orchestra with the Brighton Festival Chorus, London Choral Society and conductor Vladimir Ashkenazy perform Schnittke, Prokofiev and Rachmaninov at 7.30 pm; Dec 5
Vienna Philharmonic Orchestra: Schubert symphony No. 8 and Brahms symphony No. 4 conducted by Carlo Maria Giulini. In the presence of HRH Princess Alexandra at 7.30 pm; Nov 23
Queen Elizabeth Hall Tel: (071) 928 8800 The Fall of Icarus: Multi-media event inspired by Bruegel's, 'Landscape with Fall of Icarus'. *Belgian director Frédéric Flamand* collaborates with Italian artist Fabrizio Plessi and composer Michael Nyman at 7.45 pm; Dec 2, 3

GALLERIES
Barbican Tel: (071) 638 8891 A Bitter Truth: a multi-media exploration of changes in attitudes towards the first world war throughout its duration; to Dec 11
Hayward Tel: (071) 261 0127 Romantic Spirit in German Art 1790-1990: examines work of early Romantic painters. Includes section on German Expressionists; to Jan 8
National Gallery Tel: (071) 839 3321

Allegory: selection of paintings from the permanent collection on the *theme of allegory; to Dec 4(not Sun)*
Royal Academy Tel: (071) 439 7438 The Glory of Venice: a major survey of Venetian art in the 18th century; to Dec 14
OPERA/BALLET
Barbican Tel: (071) 638 8891 The Kirov Opera: director Valery Gergiev brings his entire company to the UK for just one night to give the first complete British performance of Rimsky-Korsakov's opera, The Legend of the Invisible City of Kitezh at 7 pm; Nov 28
English National Opera Tel: (071) 632 8300 Ariadne on Naxos: by Strauss. A Graham Vick production at 6.30 pm; Nov 22, 25; Dec 1
Khovanshchina: new production of *Musorgsky's opera. Director* Francesca Zambello at 6.30 pm; Nov 24, , 30; Dec 3, 6
Royal Opera House Tel: 071 240 1200 An Ashton Celebration: The Royal Ballet Company pays tribute to its founder choreographer. Performance includes a new *production of Daphnis and Chloë by* Ravel at 7.30 pm; Nov 21, 28, 30
La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Nov 25, 29; Dec 2, 5
Mixed Programme: includes the World Premiere of Michael Clark's New Clarke Ballet, Fearful Symmetries choreographed by Ashley Page, and Symphony in C by Bizet, choreographed by George Balanchine at 7.30 pm; Dec 1, 6
The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Nov 23, 26 (2 pm); Dec 3 (2 pm)
THEATRE
National, Cottesloe Tel: (071) 928 2252 Rutherford and Son: by Githa Sowerby, directed by Katie Mitchell. Sat and Thur mats at 2.30 pm; to Nov 26(not Sun)
National, Oliver Tel: (071) 928 2252 Racing Demon: by David Hare, the first of a trilogy of plays. Sat mat at 2 pm; to Nov 22(not Sun)
The Seagull: by Chekhov, in a new version by Pam Gems. Sat mat at 2pm at 7.15 pm; Nov 23, 24, 25, 26

■ NEW YORK

GALLERIES
Museum of Modern Art Tel: (212) 708 9480 A Century of Artists' *Books: Exhibition of 140 books from* some of this century's foremost artists; to Jan 24
OPERA/BALLET
Metropolitan Tel: (212) 362 6000 Don Giovanni: by Mozart, sung in Italian at 8 pm; Nov 25, 28; Dec 2, 6. Lady Macbeth of Mtsensk: by *Shostakovich (Russian) at 8 pm;* Nov 22, 26, 30; Dec 3
Madama Butterfly: by Puccini at 8 pm; Dec 1, 5
Rigoletto: Italian opera by Verdi at 8 pm; Nov 23, 26, 29; Dec 3
New York State Theater Tel: (212) 870 5570 The Nutcracker: Tue-Thu 6pm. Fri 8 pm. Ring for other times and matinees. Tchaikovsky ballet by NY City Ballet; from Nov 30 to Dec 31(not Mon)
THEATRE
Walter Kerr Tel: (212)239 6200 Angels in America: Tony Kushner's Tony-award winning play. Sun mat at 3pm. *Wed., Thurs., Sat. at 8 pm;* to Dec 4

■ WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600 Los Angeles Philharmonic: Conducted by Esa-Pekka Salonen, with pianist Ollie Mustonen play Lutoslawski, Ravel and Sibelius at 5 pm; Nov 26
GALLERIES
Phillips Collection Tel: (202) 387 2151 Pictographs of Adolph Gottlieb: exhibition of one of the founding members of the New York School; to Jan 2
OPERA/BALLET
Kennedy Centre Tel: (202) 467 4600 Le Nozze di Figaro: by Mozart sung in Italian with English sur-titles at 8 pm; Nov 22, 25, 27
Washington Opera Tel: (202) 416 7800 Faust: by Gounod. Director, Ellen Douglas Schlaefer, conductor, Richard Bradshaw. Faust played by Jianyi Zhang. In French with English surtitles. at 7 pm; Nov 21, 26

WORLD SERVICE
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EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)
MONDAY TO FRIDAY
NBC/Super Channel: FT *Business Today 1330; FT* Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

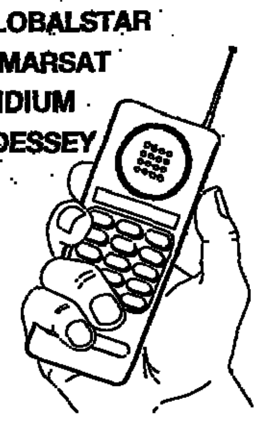
SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Long distance lines

Alan Cane on moves to expand the mobile phone market

The main contenders

GLOBALSTAR
INMARSAT
IRIDIUM
ODESSEY



Imagine a fleet of dirigibles – steerable airships – in the upper atmosphere collecting and redirecting telephone calls around the world.

Implausible as it may sound, it was one option considered by Motorola, the world's largest portable phone maker, in its search for ways to develop a mobile phone service to extend from the wilds of Antarctica to the Kalahari desert.

Motorola opted, instead, for satellites, and Iridium – the consortium it leads – is now the front-runner in an expensive and technically complex race that has been joined by seven consortia. What they envisage is a high-quality service over low-cost pocket telephones offering calls at a cost of $3 or less a minute and serving both cellular phone users and those without access to cellular systems.

Cellular mobile phone services are well established in the developed world, with 100m-200m cellular phones expected to be in use by 2000. But cellular systems can only cover localised areas. Calls beyond their network must be routed via earth-stations through geostationary satellites that hover some 22,000m above the Earth's surface, where, from the ground, they appear stationary.

There are large areas of the world without access to the telephone exchanges, lines, switching capacity and administrative capability to run cellular phone services. Mobile phone users can still gain access to geostationary satellites in these areas, using their own portable equipment – and the battlefield reports during the Gulf war bear witness to the quality of such services. But the calls are expensive, at between $5 and $10 a minute, and the equipment needed to make and receive them weighs more than a lap-top computer, fills a suitcase and costs $25,000.

The key to the new satellite services is advances in microelectronics which have made it possible to cram an entire earth station, capable of transmitting and receiving signals from up to 6,000 miles above the Earth's surface, into a package no larger than a conventional pocket phone.

Iridium and its competitors, will launch low-earth orbit satellites (Leo) that will circle the globe at a height of about 2,000km, and medium-earth orbit satellites (Meo) at about 10,000km to handle the traffic.

Iridium has already built six of its planned 73 satellites and expects to launch the first in 1997. Last week, Odyssey, a joint venture between TRW, the US aerospace manufacturer, and Teleglobe, a Canadian telecommunications operator, announced that they were joining the race. In addition, Globalstar, developed by Loral and Qualcomm, Ellipsat, Constellation Communications and American Mobile Satellite Corporation, are contenders from North America.

These US contenders were last week submitting applications for the necessary licences to the US Federal Communications Commission.

Between them, they will have to raise close to $10bn in debt and equity. Only Iridium is so far fully subscribed; having raised $1.6bn in equity, it is now looking for a further $1.8bn in loans. Odyssey, the newcomer, which has a guaranteed $150m from TRW and Teleglobe, is seeking a further $850m in equity and $1bn in loans.

Outside the US, only Inmarsat, a London-based, international consortium, has announced plans to set up a global mobile phone network, called Project P. A pioneer of satellite communications, Inmarsat first offered maritime voice and data services, using a geostationary satellite system, in 1982. It now provides satellite communications to some 40,000 customers in shipping and aerospace.

Inmarsat's owners – leading telecommunications organisations in some 75 countries – have until December 16 to decide whether to put up the $1bn the organisation needs for the first phase of the $2.8bn Project P.

Inmarsat, like the other consortia, plans to act as wholesaler, selling to "customers" who will distribute the capacity worldwide. These distributors are likely to be existing telecommunications companies such as Vodafone, the UK cellular phone group, which will become Globalstar's franchisee for countries where it operates cellular networks.

The service will still be more expensive than conventional mobile telephony but the target customer is the global business traveller prepared to pay a premium for a service that will be available anywhere. Other customers are expected to include governments, small vessels, public and private emergency services and users in areas suffering from poor communications.

Each consortia has its own, jealously guarded set of estimates on the likely rewards from this market. Most calculations, however, are tied to the likely population of mobile phones. Mr John Windolth, a spokesman for Iridium, says that if the consortia had 1m subscribers for its voice service by 2002, "We would be very profitable".

Mr Patrick McDougal, a spokesman for Inmarsat, believes its service could break even within three years of its launch in 1999.

The technology used may prove significant in determining the price of the service, with Iridium and Globalstar planning to use Leos and Odyssey and Inmarsat planning to use Meos. Leo operators need more satellites to cover the ground, but provide higher transmission quality. Meo operators promise lowest cost and technological risk.

But adequate finance and management commitment are likely to prove far more conclusive than earth orbits in sorting the winners from the losers. And the only real certainty at present is that the rivalry between the consortia will be intense. Analysts believe it is unlikely the market will be able to support more than two competitive services by 2000.

In league with the table makers

John Authers analyses the effects of ranking UK schools and other parts of the public sector

UK public sector performance indicators: leagues ahead

Education authorities

Top seven

1993 GCSE ranking		Social deprivation ranking*
1	Isles of Scilly	1
2	Kingston, London	38
3	Sutton	42
4	North Yorkshire	2
5	West Sussex	4
6	Surrey	3
7	Buckinghamshire	16

Bottom seven

1993 GCSE ranking		Social deprivation ranking*
102	Lambeth	107
103	Manchester	95
104	Islington	104
105	Barking	67
106	Tower Hamlets	106
107	Southwark	102
108	Knowsley	89

*Based on numbers of benefit claimants, single parents and immigrants. Highest ranked is least deprived

Local authorities: telephone response targets

Allerdale:	3 rings
Dorset:	4 rings
Bassetlaw	8 rings
Croydon:	80% within 30 seconds
South Hams:	30 seconds at switchboard, further 20 seconds at extension
East Yorkshire:	80% within 20 seconds at switchboard; 30 seconds at extension

Sources: Department of Education, Department for Environment, Audit Commission

England's soccer managers have long known the harsh discipline of league tables: if they underperform in the Carling Premiership or Endsleigh League, punishment often swiftly follows. Tomorrow the heads of the UK's state secondary schools face similar pressures, with the publication of performance league tables that will be widely studied by parents, governors and local education authorities.

The tables are part of a new culture sweeping the public sector. The performance of managers in other parts of the public sector is also being measured by a range of indicators designed to test their success in delivering services.

Tomorrow's school league tables, the third set published in as many years, are the most ambitious so far. They will include figures for exam performance at GCSE (normally taken by 16-year-olds) and A-level (taken at 18), vocational qualifications, truancy rates and – for the first time – details of how long children spend in lessons.

The exercise is part of the prime minister's Citizen's Charter campaign to improve the quality of public services. Mr John Major believes that poor performers exposed by comparative statistics will be compelled to improve, even if it is difficult for their customers to go elsewhere for service.

In the health service, hospital league tables were published for the first time in June this year. They revealed wide variations in speed of service: in general surgery, for example, 88 per cent of patients were admitted to hospital within three months at the Dorset Healthcare Trust; at the Kidderminster Healthcare trust, 24 per cent had still not been admitted after a year.

Doctors complained that the indicators were crude, telling patients nothing about the quality of medical care they would receive. But Mrs Virginia Bottomley, the health secretary, was unrepentant: "Information is a spur to improvement," she said.

Next spring will see the most ambitious league table exercise yet, when the Audit Commission, the local government watchdog, publishes tables for the 449 local authorities in England and Wales. These will use 70 separate measures to compare performance across all the main local services.

Residents will be able to find out how quickly their council answers the telephone or how long it takes to complete council house repairs. The same exercise will also provide statistics on law and order, such as the speed with which emergency 999 calls are answered, and how many complaints are made against the police.

Mr Andrew Foster, controller of the Audit Commission, has already decided not to publish all 60,000 separate items of information – more than appears in a typical UK telephone directory. However, edited comparative statistics will be available next year.

Mr Foster believes that the decision to measure performance drives up standards, even before comparisons are published. Including promptness in answering mail and telephone calls in the local authority league tables, for example, required councils to set targets, and measure how often they were attained.

These targets, published in June without mention of whether authorities were meeting them, revealed disparities in the tasks authorities were setting themselves. Surrey County Council had aimed to answer calls within 60 seconds, but when it saw that this was far out of line with the rest it cut its target to 20 seconds.

The Audit Commission has consulted local government officers closely in choosing the performance indicators, avoiding the confrontational approach adopted by education ministers when setting up school league tables.

Mr Foster justifies this by saying that acceptance of the validity of the indicators is important if they are to influence managers' behaviour. "If practitioners can rubbish our methods, then all the work we've put in is of little value. We can't afford to let our credibility about the nature of the data or the methodology be impugned."

Teachers and academics claim it is misleading to judge schools by exam results alone

In contrast, the launch of the first education league tables in 1992 was marred by inaccuracies in the data. For example, schools that pooled their A-level results in consortia were not credited with any A-levels at all. Newspaper headlines concentrated on the inadequacies of the government's information, rather than shortfalls in particular schools' performance, dulling the impact of the tables.

Even though the data in school league tables are now more accurate, controversy over the choice of performance indicators persists. Teachers, backed by academic opinion, claim it is misleading to judge schools by exam results alone. They say the most important factor in determining a pupil's ultimate examination performance is the level of achievement he or she had reached when starting at the school.

Publishing exam results in isolation inevitably shows schools with selective intakes performing best, the critics add. They would prefer to see league tables reflecting how well schools perform with the children they take in.

Supporters of such "value-added" tables fall into two camps. First are those who want tables to take account of social deprivation, which clearly correlates with poor exam results.

The four least deprived local authorities in England (measured by the government's educational needs index) are the Scilly Isles, North Yorkshire, Surrey and West Sussex. They came in the top six in the GCSE results league table last year. In contrast, six of the 10 most deprived authorities – the London boroughs of Hackney, Newham, Lambeth, Islington, Southwark and Tower Hamlets – were in the bottom 10 for GCSE results.

However, Labour politicians, who oppose the current "raw" league tables, are nervous about producing tables based on social backgrounds. They fear that this could institutionalise low expectations in deprived areas.

They fall into the second camp, which wants to explore value-added measures using academic progress. This would test children at 11 and 16, and see whether they improved by more or less than the average.

The problem is that national curriculum tests for 11-year-olds will become compulsory only at the end of this school year. Many local authorities abandoned their own tests of 11-year-olds when the national tests were announced. Reliable "value-added" tables for secondary schools might therefore be five years away.

But even the "raw" tables derided by teachers appear to have improved performance. Last year 41.1 per cent of 15-16-year-olds in England gained five GCSE passes at grades A to C, up from 38.1 per cent in 1992 when the league tables were first published. Sharp improvements in A-level results have also been recorded by independent schools since newspapers started publishing their own tables in 1990.

League tables seem to have had consequences for headteachers. In the private sector, turnover of heads has roughly doubled in the past decade, with many facing angry governors' meetings if their schools slip in the tables.

Two years ago, parents even forced the resignation of the high mistress of St Paul's Girls' School in London – never outside the top 10 in the country according to the Financial Times's own ranking – because they did not like her policy of reducing the number of GCSEs which girls took. Football managers will recognise the phenomenon.

LETTERS TO THE EDITOR

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Cacophony of calls on state burden

From Mr Richard Brown.

Sir, While Zygmunt Tyszkiewicz's analysis of European competitiveness is typically penetrating (Personal View, November 17), his assertion that "with the notable exception of Unice, nobody is talking about the size, cost and burden of the state in Europe's economies" is astonishingly blinkered.

Many other business representative organisations, including chambers of commerce, have been lobbying for years for deregulation, reduction in public spending and withdrawal of the state.

National governments, similarly, have been pressing for deregulation, following a trail blazed by the UK. Indeed in May, Kenneth Clarke, UK chancellor, supported a call by Günther Rexrodt, Germany's economic minister, for deregulation.

Furthermore, at a European level, the Corfu summit established, under Bernard Molitor, a group charged with putting forward proposals for lifting the burden of legislation, while the Commission is establishing a standing committee for administrative simplification.

Unice is no lone voice. There is a cacophony of calls for less burdensome state that the Commission should not ignore.

Richard Brown,
deputy director general,
The Association of British Chambers of Commerce,
9 Tufton Street,
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CrossRail decision a joint one

From Mr Geoff Maynard.

Sir, Yes, we are looking to recruit a new chief executive who can make a valuable contribution to our thinking on the need to establish an entity appealing to the private sector and separate from the three promoters of CrossRail, the proposed east-west cross-London rail link ("CrossRail team plans to split from partners", November 18).

The decision on the form of any separate entity, however, will not be down to the new chief executive as you suggest; the decision will be a matter for the government as shareholder, in consultation with the promoters, London Underground, British Rail and Railtrack.

In reporting our conversation, your correspondent has taken two thoughts out of context. The way CrossRail is eventually developed for the benefit of London and the south-east region will in large measure depend on the views of the private sector, since it is the private sector that will be providing a substantial part of the finance needed.

The step change in journey experience and scale of resulting benefits for London can only result from the introduction of a project such as CrossRail – just as has been experienced with cross capital RER services in Paris. Some people have suggested that the same result can instead be achieved by upgrading parts of the existing underground network. But all of our research with London Underground shows that such measures do not produce a viable alternative to CrossRail.

Maintaining and improving the existing rail networks is essential anyway.

Geoff Maynard,
director,
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London Rail Development,
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Give AIM a chance

From Mrs Julie Hydon.

Sir, Lex queried ("Growing companies", November 16) whether there is a need for the Alternative Investment Market and for the planned pan-European market, Easdaq.

Without further information on the latter, it is difficult to judge whether Easdaq might be necessary; but I think that, for the most part, the stock exchange's proposals for the AIM are well-balanced, and that there is a need for this particular market.

Might I suggest that critics of the AIM keep a low profile and give the new market a fair chance?

Julia Hydon,
38 Austenwood Close,
Chalfont St Peter,
Buckinghamshire 5L9 9DE

UK seeking coherence in European defence

From Dr Jonathan Eyal.

Sir, Ian Davidson is correct in arguing ("Conflict of interest", November 16) that the US decision to withdraw from the enforcement of the arms embargo on Bosnia should force the Europeans to look much more seriously at their own defence structure. Yet he is wrong to suggest that Britain advocates a "loose, floppy, amoeba-like" security arrangement for the continent.

The creation of a European defence identity depends on deeds, not just vision or words; it ultimately requires increased military budgets, something which no member state, with the notable exception of France, is willing to contemplate.

The Eurocorps structure established by France and Germany has just managed to work out joint emblems, command languages and the food served to its soldiers; in short, everything necessary for a parade on the boulevards of Paris, rather than actual fighting. And the Western European Union, presented as the EU's budding military arm, consisted until recently of little more than a few bureaucrats and some filing cabinets in transit between London and Brussels. Faced with this reality, the British position was that nothing should be done to supplant Nato as the alliance which has both the means and the command structure necessary for any serious military task. Davidson's "amoeba-like organisms" swim in the murky waters of the Balkans, where all current institutions piled in, and achieved nothing in particular.

Far from seeking to place spanners in the works, the British government is now actively pushing for a more coherent European defence arrangement. At the weekend Franco-British summit the two countries created a combined air force group explicitly designed to capitalise on the experience gained in Bosnia. Britain is also working to enshrine the mechanisms by which Europe could use US military equipment in future crises.

London's stance is no longer dictated by some wistful hankering for a "special relationship" with the Americans: this was shattered by President Bill Clinton fairly early on in his presidency. Instead, the British behaviour is governed by a perfectly logical assumption that the security structures currently touted for the continent must be real in order to be credible. But perhaps your correspondent is right after all: bashing Britain in every article on European affairs is much more predictable and tidy than setting out a host of complicated arguments.

Jonathan Eyal,
director of studies,
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Case against minimum wage

From Mr Graham Mackenzie.

Sir, Mr John Monks (Letters, November 15) refers to a recent Engineering Employers' Federation, survey which found almost 40 per cent of respondents in favour of a statutory national minimum wage. The full survey reveals a rather different view.

More than half of the respondents opposed a statutory minimum wage. Forty eight per cent of the same sample thought that a minimum wage would increase unemployment, while only 8 per cent thought it would cut unemployment.

While the EEF wants a prosperous economy with high levels of pay this can only be achieved through productivity and innovation, not by statutory imposition of employment conditions.

The EEF, therefore, cannot be party to a consensus in favour of a statutorily-imposed national minimum wage.

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FINANCIAL TIMES

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Monday November 21 1994

No bad thing for Ireland

The outside world in general, and Britain and Northern Ireland in particular, have been watching with some confusion and alarm as the Irish government pulled itself apart over the past week. Just as the peace process in Ireland offers a real chance of relief for the bombed and battered population of the north, the coalition in Dublin appears to have collapsed over what outsiders might regard as a domestic squabble.

It would be wrong, however, to dismiss the issues involved in the disintegration of the Irish government, and the resignation of Mr Albert Reynolds as prime minister and leader of Fianna Fáil, the largest party, as irrelevant to the peace process and the future of Ireland. Far from it. The confrontation between Mr Dick Spring and his Labour party, on the one hand, and Mr Reynolds' party on the other, has exposed some vital questions about the democratic process in the Irish republic.

The first is whether the country can claim to be a genuinely secular state while the Roman Catholic church continues to wield a pervasive influence in political life, a subject of enormous concern to the northern Irish protestant population. The second is the tradition of making blatantly political appointments to the Irish judiciary. The third is the question of accountability of politicians for their words and actions, an important component in an open and flourishing democracy. On all of these concerns, the Irish republic would appear to have emerged strengthened as a democratic state from the events of the past week.

The confrontation in the coalition blew up over the insistence of Mr Reynolds on nominating his friend and attorney-general, Mr Harry Whelehan, as the next president of the High Court, the second highest judicial office in the land. Mr Whelehan was already a highly controversial figure for his role in seeking to prevent a 14-year-old rape victim from travelling to Britain for an abortion. His obvious reluctance to extradite a self-confessed paedophile priest to face charges in Northern Ireland compounded the impression that he was unduly influenced by the most conservative elements in the Catholic church.

The fact that both have now been forced to resign – and that their resignation has been welcomed by the Irish population – suggests that the trend towards a more secular state is growing, as is the pressure for clean government. Both misled their cabinet colleagues and parliament, and both have been held accountable.

Mr Spring now faces a tough decision whether to reform the coalition with Fianna Fáil under its new leader, Mr Bertie Ahern. On balance, he would appear wise to do so, at least to bring minimum disruption to the peace process. Mr Ahern has a good record as a successful negotiator and broker of tough compromises as a trade union leader, and labour minister. Mr Spring has proved some important points. Now the most crucial thing is to keep the peace process on track.

Helping Arafat

It was always on the cards that the price of peace between Israelis and Palestinians might be a civil war among the latter, if not the former. Both nationalisms lay claim to the same sliver of land. Any territorial compromise represents, in the eyes of many on both sides, a betrayal of the cause.

The legitimacy of the leadership which accepts such a compromise is bound to be questioned. Some fighters will believe they have a right and a duty to fight on. Generally they will protest that they have no desire to fight fellow countrymen. Their target remains the national enemy or occupying power. But this puts the leadership in an impossible position. It has to choose, as Israel's prime minister invited the Palestine Liberation Organisation to choose last month, between peace with Israel and peace with Hamas.

That was the situation of the Irish provisional government in 1922. Having signed a treaty with Britain, it could not allow Irish dissidents to continue the war. It had to fight a civil war against them, or lose the treaty. Today Yassir Arafat has to crack down on Hamas, or lose his agreement with Israel.

The precedent is not encouraging. The Irish treaty created a Free State comprising 26 counties out of the 32 in the island of Ireland, and was endorsed by 72 per cent of the voters. Even so the ensuing civil war was more terrible and destructive than the war against the British which preceded it.

Mr Arafat is being asked to fight his civil war in much less favourable circumstances. He does not have a free state, only a limited "self-governing authority", and he controls only two small fragments of the independent state he hopes for. As for the strength of his support, no one knows because no elections have been held. Probably he could have mustered a majority a few months back. Whether he could now is much more doubtful.

The danger that he would lose a civil war in these conditions is such that there is an almost equal danger he will avoid it by reverting to war with Israel. Either outcome would be a disaster for Israel and more especially for Yitzhak Rabin, who has staked everything on the peace process. It is in Mr Rabin's own interest to give Mr Arafat a chance of success, by quickly ceding him real authority in the West Bank as a whole. That may bring closer the moment when Mr Rabin in his turn has to choose, between peace with the Palestinians and peace with those Israelis who would fight rather than withdraw. But that choice too is one that has to be faced.

Rare species

It is possible that, within years, tigers could become extinct. The conference to update the Cites convention on endangered species, which concluded this weekend in Florida, made that clear. Would extinction matter? On one view, it might not; the loss would pose no immediate threat to human health or wealth.

But on several counts, it is worth putting effort into saving rare species. In western eyes, tigers, elephants, whales and the like are romantic beasts, whose existence is valued even by those who never see a live specimen. For local communities, the animals can add greatly to tourism revenues. For all countries, the animals represent a pool of genes which has potential value.

What is the best means of saving these species? The threats they face are poachers who want to sell tusks, hides and meat for profit, farmers who resent the damage they do, and the steady encroachment of human societies into wild habitats.

The essence of the task is to give people an economic incentive to keep the animals' numbers at sustainable levels. But there are two particular problems. One is that, as some east and central African countries have found, the benefits of the live animals, through tourism, generally go to the government and companies, while the value of dead animals is received by poachers and farmers. Governments have found it hard to redistribute the benefits of tourism at a local level.

Second, demand for products such as rhino horn, driven largely by Asian markets, has not yet been checked by rising prices. Given the disparity between Asian wealth and African poverty, it is possible that species would be extinct before prices rose by enough to choke demand.

One solution is simply to improve enforcement of national rules against killing animals. South Africa, which devotes considerable resources to protecting its wildlife, has found numbers of elephant and white rhino growing rapidly, even though it allows limited domestic trade in ivory.

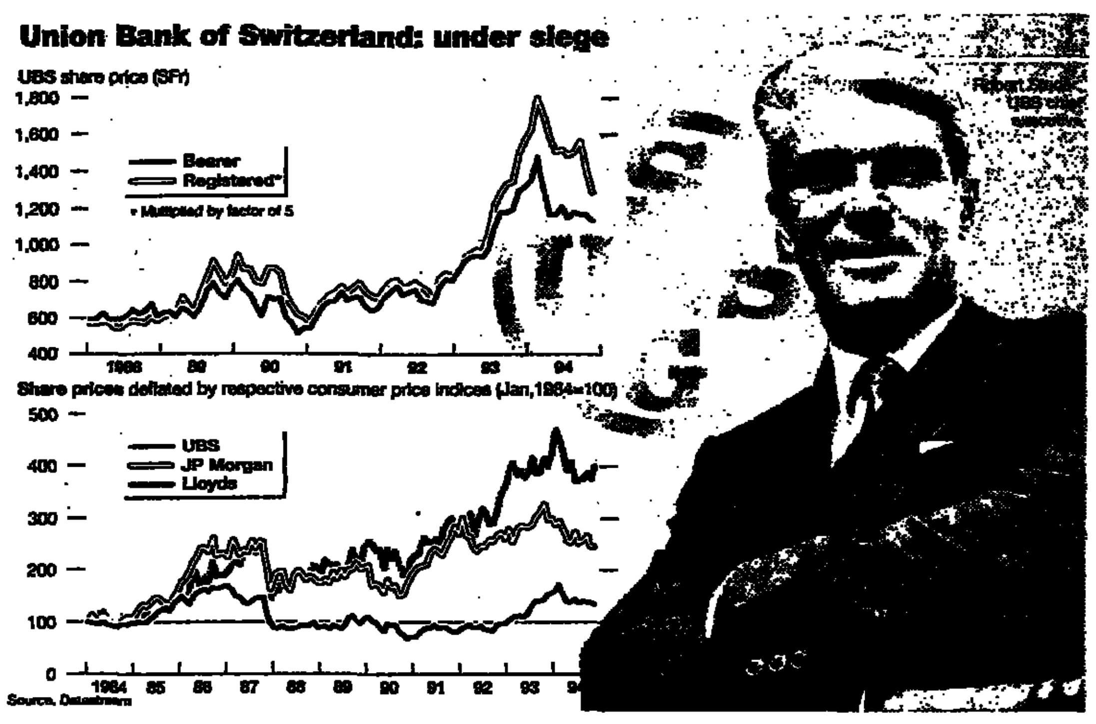
But that requires funds which are beyond the resources of poorer countries. One of the best arguments for maintaining an international ban against trade in products of endangered species is that it makes guarding the animals easier and cheaper even for the poorest states. The Worldwide Fund for Nature estimates that the budgets for protecting elephants have dropped by nearly 90 per cent in Zimbabwe, Zambia and Tanzania since the worldwide ban on ivory trade in 1989

A third device is to reduce demand for the products. Environmental groups argue that since the start of the ivory ban, the price of ivory has fallen – where it can be obtained – while the price of rhino horn has increased. That is, they say, partly because the main markets for ivory were in western countries which have enforced tough import controls on ivory. Meanwhile, western public opinion has turned against ivory.

There is no single solution to the problem of supporting rare species. But the Cites conference was right to uphold the ban on elephant and white rhino products, as one of several mechanisms. The next useful step would be to increase pressure on those governments which have so far taken a relaxed attitude towards import of banned products.

Martin Ebner's challenge to the UBS board has unsettled Switzerland's cosy corporate culture, says **Ian Rodger**

Bank raid or revolution



Switzerland's cosy business community has never seen anything like the bitter proxy battle at the Union Bank of Switzerland, where a determined outsider has taken on a powerful establishment for control of the company.

Six weeks of hectic trading have wiped more than SFr1bn (£489m) from the bank's market capitalisation. And it remains unclear whether the UBS board will attract enough votes at tomorrow's extraordinary general meeting of shareholders to see off a challenge to their governance from Mr Martin Ebner, a little-known Zurich broker-fund manager.

But the case is about more than UBS; it also marks the beginning of the end for continental Europe's discreet and private approach to corporate governance. Capital market liberalisation and privatisation have created a new shareholder culture bent on accountability. And Mr Ebner, a former share analyst, has confronted the bank with it.

In 1984, Mr Ebner left the Zurich private bank J. Vontobel to set up BZ Bank, specialising in block trades for institutions. Feared by established rivals, the bank is one of the most pushy players in the Zurich market. Mr Ebner diversified into fund management in 1991, taking control of an investment company, Pharma Vision 2000, specialising in pharmaceutical shares, and starting another, BK Vision, for financial shares. He declared the Visions would be activist shareholders, and BK Vision began to needle the mighty UBS.

As one of only three international banks with triple-A status from all the big credit-rating agencies, UBS would not seem a propitious target for a dissident shareholders' movement. But Mr Ebner says the bank's real return to shareholders – averaging 5.9 per cent in the past 15 years – is far too low. He argues that, as Switzerland's largest and most prestigious bank, UBS must break lazy habits acquired from dominating formerly cartelised domestic financial markets.

"The only banks that will survive are those which concentrate on their most efficient and profitable activities," he said in a speech to the UBS AGM last April. At that meeting, BK Vision put a motion to reduce the UBS board from 23 members to nine. The motion was defeated, but BK Vision, to everyone's surprise, attracted some 40 per cent of the votes.

Mr Ebner interpreted this support as a wider mandate to challenge the bank's overall governance, and foresaw a unique opportunity next spring when the terms of 10 UBS directors expire.

A couple of months ago, he informed UBS directors that he was trying to attract a majority of shareholders' votes with a view to making substantial board and strategy changes at the next AGM.

As UBS has a market capitalisation of over SFr30bn, it would normally be prohibitively expensive to accumulate enough votes for such a cause. But, like many European companies, the bank has two classes of shares, bearer and registered. They are issued in roughly equal numbers and each carries one vote per share. But the registered shares have a par value only one-fifth of that of the bearer shares, making them a cheap way to buy votes.

Theoretically, at today's market prices, an investor could buy all of the 22.25m registered shares, carrying 51 per cent of the votes, for some SFr6bn. By contrast, the 21.3m bearer shares, which carry the other 49 per cent of the votes, would cost more than SFr25bn.

Until recently, registered shares traded at an effective discount, in that it cost less to buy five registered shares than it did to buy one bearer share. This was because of rules prohibiting foreigners from voting with them and preventing anyone from voting with more than 5 per cent of them. These restrictions were intended to prevent UBS from a foreign takeover.

But this year the registered shares have traded at a growing premium, trading at a price 40 per cent above one-fifth of the price of a bearer share by late September. UBS directors suddenly realised they faced a serious threat.

They called tomorrow's extraordinary general meeting to propose converting all the registered shares into bearers on terms that would slash their voting power to a level in line with the 17.3 per cent of capital they contribute to the company. They offered no compensation for the collapse in the premium on registered shares that would follow conversion. And they declared that a two-thirds majority of all shares present at the meeting, provided they represented more than 50 per cent of the capital, would be sufficient to approve the motion.

Mr Ebner and other registered shareholders cried foul, arguing they should be compensated for the loss of voting power and be able to vote separately on a proposal to remove their rights.

UBS said that compensation could only come from money that belongs to all shareholders, and so would invite legal action from aggrieved bearer shareholders.

UBS would appear to have the more virtuous position to defend. Mr Robert Studer, the chief executive, points out that the single share structure would improve market liquidity and remove the danger that Mr Ebner and his allies could take over control through a relatively small investment. "He is a raider. He wants to walk away with money. He is not interested in what will happen to UBS in 10 years," Mr Studer charged last week.

Mr Ebner says registered shares provide the only effective way for shareholders to press the bank's board and management to perform better. This is because a very large proportion of the shares can only be voted in favour of the board.

A large proportion of UBS shares – over 40 per cent of those voted at the last AGM – are held by Swiss banks for their clients. Swiss law provides that, if the banks have a general power of attorney from their clients, as most do, and receive no specific instructions to the contrary, they can only vote these shares in favour of the board's resolutions.

Both sides have been clumsy and amateurish in their campaigns. Mr Studer declared at one point that Mr Ebner's demand that the bank achieve a return on equity of 15 per cent was "ridiculous", only to be reminded that two years ago he had given it as a target for the longer term. For his part, Mr Ebner claimed UBS could fall into the hands of international drug dealers if the protection against foreign takeovers provided by the registered shares were lost.

Only later did he explain why he would not set out an alternative strategy for UBS: strategy was a board decision; shareholders' responsibilities were only to set the target return on equity, set incentives for top management, and appoint directors to get on with it.

Most Swiss bankers and institutional shareholders are expected to support UBS tomorrow because they do not want to offend the country's most powerful bank or because they dislike Mr Ebner.

But the extraordinarily high volume of registered share trading – 11.6m last month – reflects how many fund managers would rather sell than decide what voting stance to take.

Both UBS and Mr Ebner accuse each other of buying big volumes of registered shares, and both deny it. The truth is made more difficult to discern by the potential for buying votes through futures contracts or borrowing shares from custodians.

Mr Ebner says that, if he loses, he will immediately seek a court injunction preventing conversion of the registered shares. Registered shareholders would then retain their extra power for votes at the AGM in April, and the UBS's decision to precipitate the current fight would have been in vain.

Mr Studer shrugs. "Maybe we will have mobilised a few minds, sensitised a few shareholders."

Whatever the immediate outcome, shareholders in UBS and many big continental companies are likely to be the ultimate winners. UBS directors have belatedly realised Mr Ebner's demands for more rigorous management have a lot of support among their widening shareholder base. Directors of other big quoted Swiss and European companies would be unwise to ignore the message.

Balanced ticket for business and greens

PERSONAL VIEW

The delicate balance of power between UK industry and its adversaries in the green lobby may be on the point of being upset. A draft Bill establishing the Environment Agency, which absorbs Her Majesty's Inspectorate of Pollution (HMIP), the National Rivers Authority (NRA) and the waste regulation functions of local authorities, contains a loosely worded clause requiring the agency to take account of the costs and benefits of its actions.

While the business community welcomes this as a recognition of reality, others fear it opens the way for polluters to block moves to protect the environment.

But even if the new agency's statutory role is weaker than many environmentalists hoped, environment secretary John Gummer's claim that there will be no place for busybodies may prove premature. Most of the problems business faces in meeting environmental standards are not caused by too tight a statutory definition of the duties of HMIP or the NRA. They arise more often from ill-considered, or illogical, directives proposed by the European Commission – and from the tendency of regulators to measure their success mainly in terms of prosecutions.

The cost of waste disposal, for example, which industry and households alike must bear, may rise substantially in the next few years. This will not be because of the actions of any British regulator but because the European landfill directive threatens the cheapest method of waste disposal in the UK. The directive, which may be forced through despite British objections, ignores the geological and other characteristics which make landfill more acceptable in the UK than elsewhere in Europe.

Equally unnecessary is the burden imposed on British farmers by immediate implementation of the nitrates directive. This enforces standards for drinking water which have been arbitrarily chosen by Brussels in defiance of World Health Organisation recommendations. No scientific or medical evidence exists to support them and they are now belatedly being questioned by other bureaucrats within the European Commission.

Since the Environment Agency's role will be to enforce standards but not to set them, the deregulators should concentrate on persuading Britain's European partners to measure environmental quality in the broadest sense. A draft directive on

Most of the problems business faces on environmental standards arise from EU directives

integrated pollution controls is now under negotiation. From the point of view of British industry it is crucial that the principle of BATNEEC – best available technology not entailing excessive cost – should be built into this directive.

This principle, already widely used by Her Majesty's Inspectorate of Pollution, achieves a compromise between the needs of industry and the demands of the greens. It provides a valuable safeguard for business against the continental preference for rigid emission standards.

An agency strong enough to command the confidence of the more realistic environmentalists could use the experience gained by HMIP for the benefit of the environment while also protecting UK employers against meddlesome bureaucracy and the ravages of Brussels. A constructive dialogue between the agency and those whom it regulates should prevent the imposition by over-zealous officials of burdens on business never intended by government or legislators.

In any event, it is doubtful how far industry itself wants to water down the aims of the environmental lobby. Unlike the extra costs to employers of the Social Chapter, which simply destroys jobs by undermining the competitive position of those companies which have to carry them, investment in higher environmental standards can bring commercial advantages.

Customers, especially younger ones, may prefer products and services supplied in an environmentally responsible way. Employees, particularly those with scarce skills, are easier to retain when offered a good working and living environment. From a national viewpoint, countries with high environmental standards will attract investment in the high value-added industries which we want our children and grandchildren to work in.

The challenge for both the agency and the pressure groups is to harness the resurgence of interest in the environment and build on initiatives such as the chemical industry's responsible care programme. Business must show commitment to continuous environmental improvement, using systems capable of being externally verified and promote more environmental reporting and audit. In the long term, dilution of the agency's statutory role does little for either business or the environment.

Tim Yeo

The author is a former UK environment minister

OBSERVER

From little acorns grow

■ Here is one for Gardener's Question time. How do you ensure that a small press release from an unknown firm of Shropshire seed merchants – highlighting the shortage of British acorns – can grow into a healthy Euro-scare story from which cuttings can happily be taken only a few weeks after first blossom?

The press release, designed to drum up business for the company, caught Fleet Street's imagination because it drew attention to a little known UK Forestry Commission regulation based on an EC directive. Anyone establishing a plantation of young trees for forestry purposes can only use acorns from one of 42 registered oak "stands" in the UK. As a result of this year's poor crop, demand will have to be met by importing foreign acorns from countries such as Poland.

The regulation – in force for well over a decade – only applies when UK government grants for planting oak trees are concerned. There is nothing to stop any private individual or land-owner from collecting acorns and growing oak for their own use.

However, let's not spoil a good story. Having started with "Euro-meddlers try to fell our oaks" and "British acorns not good enough says Brussels", by yesterday the Independent on Sunday and the Sunday Express were both blaming the UK acorns' problems on Adolf Hitler. The Brussels directive is said to be based on a German Forest Race law drafted when Hitler was in power.

The Forestry Commission believes the current row is a nonsense – a view shared by Bryan Cassidy, the Tory MEP who drew Observer's attention to the affair. British oaks were wiped out in the ice age and most of the oaks in Britain today have come from the continent. So much for the Daily Express' view that German or French oak is "about as tough as stork margarine".

Tate and smile

■ Isn't it lucky that charities are duty bound to have charitable thoughts? Otherwise some of them might be cursing the Tate gallery come Budget day.

It seems that Customs & Excise is determined that the Tate should cough up £12m in value added tax which will be due on the conversion costs of transforming the old Bankside power station into its new art gallery. The Tate, however, counts as a charity. And social welfare charities and worthy bodies – such as nursing homes – are hoping the Budget will include them in the zero-VAT rate on converting commercial buildings into housing. Current betting is that the worthies will win and the charities lose – and all because

'Can I snort it?'

Customs just can't bear to see that £12m slipping from its grasp.

Result: if Eton wanted to convert a warehouse into a boarding house it could get VAT relief; if a local charity wanted to convert the same building to a day centre for the elderly it couldn't.

Sailing by

■ Good news from British shipbuilders. Only days after the last rites were performed for Swan Hunter, one of Europe's best-equipped shipbuilders, Britain has secured an order for a ....square rigged sailing ship.

It seems that any navy worth its salt has a square rigger in its fleet these days. So the Indian government has commissioned Hampshire naval architect Colin Mudie to design a 177ft three-masted barque to train India's young sailors before they move up to something more powerful.

Mudie has carved out quite a niche for himself. He has designed the Young Endeavour (Australia), Tunas Samudera (Malaysia) and Lord Nelson. His latest vessel will accommodate 45 cadets and have a 2,000 mile range. The bad news is that the ship will be built in Goa and not Sunderland.

Soldiering on

■ France's President Mitterrand may be thinking about finding his successor, but Andreas Papandreou, Greece's ailing socialist prime minister, is making another stab at immortality. Rather than take well-earned retirement after serving as premier for nine of the past 13 years, he is preparing to undergo heart surgery once again.

Papandreou, 75, has been in poor health since having a double bypass in London in 1988. But this time he is too weak to travel. The operation is expected to take place early next year in Athens' gleaming new Onassis Cardiac Centre founded under the will of the late shipping magnate Aristotle Onassis. Conveniently from the point of view of medical bills the Onassis hospital was incorporated into the Greek national health system by Papandreou a few years ago.

Electrifying logic

■ John Baker and Brian Birkenhead, the architects of National Power's well-received move to buy back up to 102.5m of its shares from the Treasury, appeared well pleased with their efforts on Thursday. And with good reason.

Within a day of the announcement, the chief executive and finance director of National Power exercised a large raft of share options. Birkenhead made a £380,000 turn from the transaction, while his boss netted £713,000. The additional profits to the two from Thursday's price rise, amounted to a worthwhile £23,488.

Admittedly, the directors had had to wait until the announcement of their results, before they could make such transactions. But when they told analysts on Thursday that the buy-back deal was in everybody's interests, they clearly meant it.

Milk stout

■ What better place for Barings to stage its presentation for the Alaska Milk Corporation of the Philippines than at The Brewery in London's Chiswell Street. If you want to pop along, drop a line to Cressida Stout. Don't feel bitter if you're not invited.

FINANCIAL TIMES
Monday November 21 1994

Aids drugs combination gives most effective results so far

By Clive Cookson, Science Editor

A combination of two Aids drugs, Glaxo's new 3TC and Wellcome's established AZT, has the strongest and most prolonged clinical effect of any treatment yet tested.

First results of clinical trials with the 3TC-AZT combination, which were released at an international congress on Aids therapy in Glasgow, Scotland, yesterday, show the drugs cut virus levels in blood cells by 99 per cent after a year. This compares with an 11 per cent reduction over six months using AZT alone.

The results are so encouraging that Glaxo has decided to continue developing 3TC itself rather than licensing it to Wellcome. The two UK pharmaceutical companies had announced in March a provisional agreement giving Wellcome the option to develop and market 3TC as a treatment for HIV infection, the virus that causes Aids. But negotiations to implement the agreement have collapsed because Glaxo now sees 3TC as a more promising potential product.

"Glaxo is fully committed to the development and eventual marketing of 3TC and will proceed to bring it through the regulatory process as quickly as possible," the company said last night.

It plans to file for regulatory approval in the first half of 1995 to sell 3TC in combination with AZT. The two companies are continuing discussions on commercial co-operation over 3TC/AZT combination therapy.

The Glasgow conference heard results from two trials of 3TC/AZT involving a total of 352 patients infected with HIV. As well as producing the drastic reduction in the levels of virus, the combination was far more effective than AZT in improving patients' CD4 cell counts, which measure the damage done to the immune system by the infection.

"The results of AZT/3TC in combination are better than any of the combinations which have been tried to date," said Dr Schlomo Staszewski of Goethe University Clinic in Frankfurt, Germany, who was in charge of one study. "These data are extremely significant not only for their effectiveness in reducing virus and increasing CD4 cell levels but also because the effects persisted throughout the year-long study," added Prof Christine Katlama of the Pitié-Salpétrière Hospital in Paris, the other study leader. "It is also important to note that the combination was very well tolerated by patients."

Longer clinical trials will be necessary to confirm that the 3TC-AZT combination actually improves the health and extends the life of people with HIV.

First evidence from test-tube experiments that 3TC plus AZT could be effective in combating the disease emerged publicly at the World Aids Conference in Japan in August this year.

Absence of rebel leader raises doubts over end to civil war

Angolan peace uncertain despite pact

By Michael Holman in Lusaka

Prospects for peace in Angola remained uncertain last night despite the signing of an agreement to end the country's 19-year civil war which has cost half a million lives.

A warm handshake between Angolan president Eduardo dos Santos and General Eugenio Manuvakola, who signed on behalf of the Unita rebel movement, did little to allay fears aroused by the absence from the ceremony of its leader, Mr Jonas Savimbi.

The agreement, in which the warring parties pledge a ceasefire with effect from midnight tomorrow, envisages the integration of Unita forces into the army, a coalition government and fresh national elections, to be monitored by a 7,000-strong United Nations force. The government has ceded to Unita three second-rate provincial governorships as well as four minor ministries.

The truce ceremony fell well short of what had been planned. President dos Santos delegated the signing of the document to his foreign minister.

The programme for the ceremony, attended by African leaders and western officials, listed Mr Savimbi as a participant. But over the weekend Unita officials said an Angolan government military offensive launched a fortnight ago would prevent him from attending.

Although Gen Manuvakola, Unita's secretary-general and chief negotiator, said yesterday Unita intended to implement the deal, Mr Savimbi has yet to make his position clear. A 1991 peace agreement, negotiated by US and Soviet diplomats, collapsed after Mr Savimbi refused to accept defeat by Mr dos Santos' MPLA party in the following year's election.

The renewed conflict has left Angola more bitterly divided but the recent MPLA offensive may have given the government the upper hand.

Government forces recently captured the Unita stronghold of Huambo, 530km southeast of the capital, Luanda.

Southern African leaders who attended the signing are understood to have warned Mr Savimbi they are ready to offer military assistance to the MPLA government if they decide he is to blame should the peace process collapse a second time.

Nicholas Shaxson adds from Luanda: Both sides have access to funds should war resume. The government is pumping about $2.5bn a year of offshore oil. Unita still controls much of the north-eastern diamond trade, last year worth some $250m.

Recent US Republican electoral victories will revive the influence of old Unita friends, such as Senator Jesse Helms, incoming chairman of the Senate Foreign Relations Committee.

Oil industry survives, Page 5

Irish poll urges party leaders to avoid calling fresh elections

By John Murray Brown in Dublin

Ireland's outgoing ruling coalition partners were under growing pressure last night to find a speedy resolution to the current political crisis.

The coalition's difficulties were exacerbated by an opinion poll indicating widespread opposition to a general election and 43 per cent of those polled backing a new coalition between Fianna Fáil and Labour.

The Dáil, Ireland's parliament, is due to meet tomorrow to try to agree a new government and vote a new prime minister, although no conclusive result is expected. Political parties will probably ask for more time. Mr Joe Costello, a Labour MP, indicated that "substantial" negotiations would only start after tomorrow's vote.

Amid fears that a protracted delay in forging a new government could damage the Northern Ireland peace process, Mr Bertie Ahern, the newly installed Fianna Fáil leader, said he would "take account" of the poll, which indicated 73 per cent against calling early general elections.

Ireland's outgoing government broke up last week with the resignation of the prime minister, Mr Albert Reynolds, before a vote of confidence which he was expected to lose.

The crisis began when Labour accused Mr Reynolds of misleading parliament over the attorney-general's role in an extradition case involving a Roman Catholic priest who was later convicted in Northern Ireland of child abuse. Mr Harry Whelehan, the attorney-general involved, also resigned from his new position of president of the Irish High Court.

Speaking on BBC1's Breakfast with Frost programme, Mr Ahern referred to the "fairly substantial nature" of yesterday's opinion poll and made it clear he favoured a new arrangement with Labour. However, in his first public statements since being voted in as party leader on Saturday, Mr Ahern also tried to reassure his traditional Fianna Fáil support and backed the objective of a united Ireland with a promise of a social programme "that takes account of our distinctive values and convictions".

Much will depend on Mr Dick Spring, Labour leader and outgoing foreign minister, whose withdrawal from the government on Wednesday ensured its downfall. A Fianna Fáil-Labour coalition would do much to restore momentum in the peace process and provide continuity as Dublin and London try to finalise the framework document to provide the basis for a lasting constitution for Ulster.

Irish wait to see which way Spring jumps, Page 2
Fear of IRA split rejected, Page 6
Editorial Comment, Page 15

VW board concerned over tension

Continued from Page 1

members are understood to be more than satisfied with the benefits of the shake-out started two years ago when Mr Piëch took charge. VW last week said its losses after nine months had been cut to DM73m ($46.9m) this year from DM1.53bn last year.

Although the origins of the letter, published in today's edition of the news magazine Der Spiegel, are uncertain, the internal resistance to Mr Piëch's regime was confirmed in a recent interview in which he said he was "still working" on middle managers reluctant to toe the line.

He alleged that unknown VW employees had tried to bug his private telephone and sabotaged his press office communications. The interview was widely seen as the launch of a wholesale offensive on the next management layer.

THE LEX COLUMN

UBS under pressure

The battle between the board of Union Bank of Switzerland and Mr Martin Ebner, the maverick fund manager, is nearing its climax. Tomorrow investors will vote on a board proposal to strip the bank's registered shareholders, of which Mr Ebner's BK Vision is the largest, of their special voting rights.

For registered shareholders, it is clear what to do. Their shares enjoy an effective premium of 17 per cent over the bank's bearer stock, which would be wiped out if the board's proposal carried the day. Given that registered shareholders command 51 per cent of the bank's votes, one might think their self-interest would settle the battle. But things are not so simple. UBS, through its fund management arm, holds power of attorney over a large slug of its own shares. By voting them in favour of the board proposal, it may well be able to neutralise other registered shareholders.

As a result, the bearer shareholders' votes will also be crucial. For them, the essential question is whether it is in their interests for Mr Ebner to be stripped of his influence. Probably not. Though Mr Ebner has not spelt out a complete strategy for UBS, he is pressing the bank to improve its returns – perhaps by focusing on its lucrative fund management arm and reducing its less profitable retail banking network. UBS says it too plans to improve profitability. But it is hard to avoid the conclusion that it has been spurred to do so by Mr Ebner's prodding. If he is marginalised, UBS will be under less pressure to perform. So bearer shareholders, too, should vote against the board.

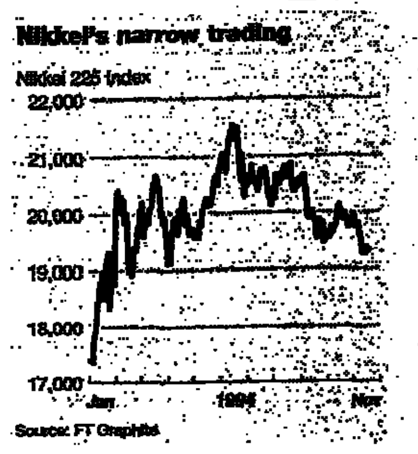
Solvency standards

Britain's actuaries are incensed that the government's proposed solvency benchmark for occupational pensions will give an unduly optimistic picture of a fund's financial health. That is because the proposed methodology allows schemes to count their equity holdings when assessing their ability to meet liabilities to pensioners expected to live at least 10 years. The actuaries argue passionately that gilts should be used as they provide more certainty of providing the necessary income.

However the debate is resolved, it has usefully served to highlight the trade-off between investments in equities versus gilts. It is exposing something that may have been obscured during the 1980s when high equity returns could be taken for granted: that investment in equities is at the expense of the security of pensioners' entitlements. To guarantee that security requires a higher proportion of gilts in a pension portfolio. And yet, because equities outperform gilts over the long term, it costs a company more to fund greater security. Those companies whose funds have a low solvency margin – and therefore run the risk of failing the new standards – will eventually be obliged to make greater contributions to their funds.

It is alarmist to suggest that the solvency proposals will ultimately lead to a massive switch out of equities. Most funds have a high degree of solvency, and those that do not have until the next century to make the adjustment. But for some funds, which face the obligation to meet liabilities sooner rather than later, the shift to gilts has already begun.

Nikkei's narrow trading



Source: FT Graphite

Tokyo markets

Aggressive overseas buyers of the Tokyo stock market in the first quarter have been disappointed by the Nikkei's progress. Foreign investors had hoped the market would move forward sharply on the back of an expected strong recovery in corporate earnings. The interim earnings reported by manufacturers this month have indeed been strong. But the Nikkei has moved sideways. Admittedly, US investors are sitting on 5 per cent profits since March, but that is due to the dollar's depreciation against the yen. Domestic shareholders have enjoyed no improvement whatsoever.

The reason for investors' frustration is that the earnings recovery among manufacturers has already been discounted. Sectors such as steel and paper have outperformed the market by about 10 per cent this year. But the Nikkei has been held back by sectors such as construction and banking which have fallen 18 per cent and 11 per cent respectively.

Overseas investors have neither the weight nor confidence to create a market recovery. For the market to move forward decisively, it must be driven by domestic buyers. But Japanese institutions view equities, which yield less than 1 per cent, as expensive compared with bonds which yield 4.75 per cent. Moreover, the banks, troubled by poorly performing loans, still own 20 per cent of the market. Whenever the Nikkei picks up, they sell into strength. If the market breaks out from its recent trading range soon, the move is likely to be down.

Metals

Base metals prices enjoyed an extraordinary trading period last week. The prices of copper and aluminium clambered 5 per cent in frantic trading on the London Metal Exchange. That was the culmination of a bull run which has driven base metal prices up more than 60 per cent since January.

The rise in some of the metals may be justified. Reserves of copper on the LME have fallen nearly 50 per cent since this time last year, leaving less than five weeks' stocks. Demand, driven by rapid economic growth, is expanding fast. Meanwhile, new supply is not due to come on-stream until the second half of next year.

Similarly, aluminium stocks have fallen 20 per cent, with demand strong and supply controlled until at least the end of 1996 through a voluntary agreement by manufacturers. But stocks of tin, lead, zinc and nickel, all of which have posted impressive increases this year, have risen over the last 12 months. Even if demand is strong, supply appears stronger.

The arrival of speculative commodity and hedge funds indiscriminately buying baskets of metals are the main cause of the explosion in prices. They have viewed commodities such as metals as a hedge against inflation. But the scale of the funds has swamped the fundamentals of the metals markets. No doubt, when the fashionable money flows out again – and it will because metals pay no interest – prices will suffer a sharp correction. With many funds anxious to book profits before the year-end, the base metal bubble could burst before Christmas.

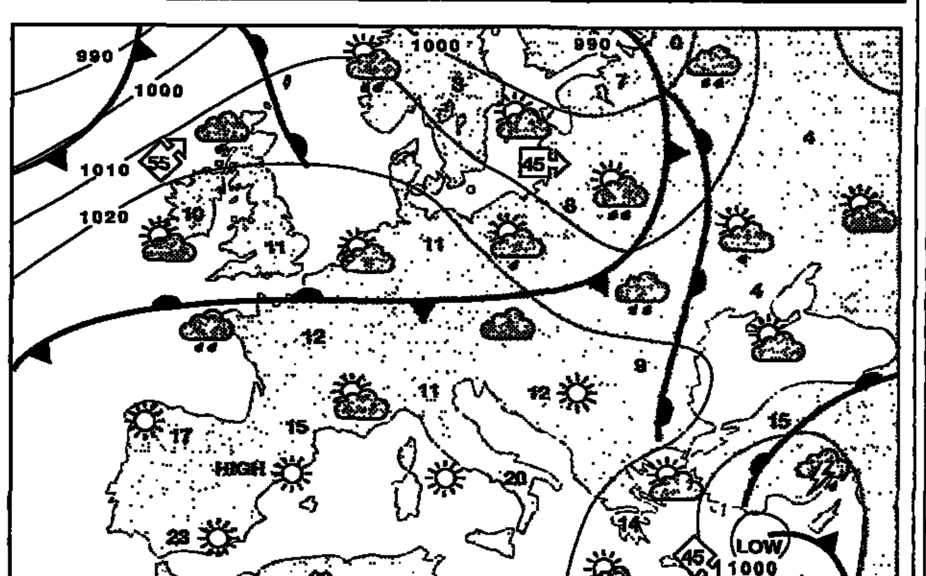
FT WEATHER GUIDE

Europe today

High pressure over France and the north Balkans will bring calm, dry conditions to most of Europe. Scandinavia, European Russia and the eastern Mediterranean will remain unsettled, although Sweden will become drier. Heavy rain will continue along the coasts of Norway, Scotland and northern Ireland, while Russia will have snow and rain. Central Europe, northern France and the British Isles will have fog, low cloud, drizzle and some sunshine. The western Mediterranean will be sunny and warm, with temperatures exceeding 20C on the southern coasts.

Five-day forecast

Thunderstorms will move away from the eastern Mediterranean. Southern Europe will be dry with sunshine, fog and light winds. From Wednesday, unseasonably warm weather will end the cool spell in the British Isles, Benelux and France. Scandinavia will remain unsettled. Eastern Europe will become cold and unsettled by the end of the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	7	Caracas	shower	30	Faro	sun	21	Madrid	sun	18	Rangoon	fair	35
	Celsius		Belfast	fair	10	Cardiff	cloudy	11	Frankfurt	cloudy	10	Majorca	sun	21	Reykjavik	rain	6
Abu Dhabi	sun	31	Belgrade	cloudy	12	Casablanca	sun	20	Geneva	fair	12	Malta	fair	20	Rio	cloudy	26
Accra	fair	32	Berlin	fair	11	Chicago	rain	4	Gibraltar	sun	20	Manchester	fair	11	Rome	sun	20
Algiers	sun	23	Bermuda	cloudy	24	Cologne	fair	11	Glasgow	cloudy	11	Manila	fair	30	S. Frsco	fair	14
Amsterdam	fair	12	Bogota	fair	21	Dakar	fair	29	Hamburg	fair	9	Melbourne	shower	18	Seoul	fair	9
Athens	fair	14	Bombay	fair	34	Dallas	fair	18	Helsinki	shower	4	Mexico City	fair	23	Singapore	thund	33
Atlanta	fair	22	Brussels	fair	11	Delhi	sun	25	Hong Kong	fair	27	Miami	fair	28	Stockholm	fair	5
B. Aires	shower	23	Budapest	cloudy	11	Dubai	sun	31	Honolulu	fair	29	Milan	sun	13	Strasbourg	cloudy	11
B.ham	fair	10	C.hagen	fair	9	Dublin	fair	11	Istanbul	shower	10	Montreal	sleet	2	Sydney	fair	24
Bangkok	fair	33	Cairo	fair	20	Dubrovnik	fair	19	Jakarta	fair	31	Moscow	sleet	0	Tangier	sun	21
Barcelona	sun	19	Cape Town	sun	22	Edinburgh	cloudy	10	Jersey	fair	11	Munich	rain	12	Tel Aviv	shower	22
									Karachi	sun	32	Nairobi	fair	25	Tokyo	cloudy	15
									Kuwait	fair	29	Naples	sun	20	Toronto	rain	5
									L. Angeles	sun	19	Nassau	fair	28	Vancouver	cloudy	4
									Las Palmas	sun	26	New York	rain	13	Venice	sun	13
									Lima	cloudy	23	Nice	sun	18	Vienna	rain	12
									Lisbon	sun	18	Nicosia	thund	14	Warsaw	rain	10
									London	fair	11	Oslo	fair	6	Washington	fair	13
									Lux.bourg	fair	10	Paris	cloudy	12	Wellington	rain	13
									Lyon	fair	13	Perth	sun	33	Winnipeg	snow	-11
									Madeira	sun	23	Prague	rain	11	Zurich	cloudy	11

FINANCIAL TIMES
COMPANIES & MARKETS

Monday November 21 1994

MARKETS THIS WEEK

GERARD BAKER
GLOBAL INVESTOR
It is Thanksgiving Week in both the US and Japan, and currency markets will have an opportunity, over the turkey and the sake to review the latest developments in the struggle for the dollar.
Page 20

MARTIN WOLF
ECONOMIC EYE
It would take at least 20 to 30 years for China to become a superpower, even if reform were to continue, which is far from assured. But China is already a better qualified candidate for membership of the G7 than Russia. **Page 20**

BONDS:
The UK government bond, or gilt, market is in a confident mood, rallying in the face of Tuesday's rise in US short-term interest rates. Elsewhere, Latin American debt has been among the worst casualties in this year's bond market meltdown.
Page 22

EQUITIES:
In New York, with the Thanksgiving holiday on Thursday, uncertainty is expected to continue over what is generally one of the slowest weeks of the year. Meanwhile, the phrase 'soft landing' is making a comeback as the London market tries to assess the likely impact of last week's move by the US Federal Reserve to raise US interest rates. **Page 21**

EMERGING MARKETS:
The world's emerging markets largely discounted last week's action by the US Federal Reserve as thoughts remained focused on whether there will be a final rally to end the year. **Page 21**

CURRENCIES:
Foreign exchange markets face a quiet few days, after a week in which a deluge of data, combined with a monetary tighting from the Fed, failed to generate any significant movement in the dollar.
Page 21

COMMODITIES:
Today sees the introduction of a market makers' scheme for the Brent crude option contract, which, according to Peter Wildblood, the chief executive of London's International Petroleum Exchange, "will increase accessibility" to the contract. **Page 20**

INTERNATIONAL COMPANIES:
One of the most keenly awaited decisions in the investment banking world is expected to be taken in Bonn today when Chancellor Helmut Kohl meets with Deutsche Telekom to decide which banks will handle the DM15bn ($9.7bn) partial privatisation of the German telecommunications concern. **Page 19**

UK COMPANIES:
The move by Standard Life, the UK's largest mutual life insurer, to offer higher surrender values to customers who cash in long-term policies early has sparked controversy. **Page 18**

STATISTICS

BZW looks to strengthen presence in US

By John Gapper, Banking Editor

BZW, the investment banking arm of Barclays, has started a strategic review of its business in the US that could lead to the bank entering a partnership with, or acquiring, a US investment bank.

BZW executives believe that it needs to strengthen its presence in the US in order to compete with other global investment banks. At the moment, BZW has limited US bond operations and it does not sell US equities.

The bank's review is being led by Mr Donald Brydon, the newly-appointed deputy chief executive of BZW. Barclays may appoint outside advisers to help in the review, which is expected to be completed by the middle of next year.

The move follows efforts by Barclays to run down its US retail banking businesses, and refocus its activities for large companies. It has reduced the number of companies it deals with over the past 18 months from 900 to 200.

Sir Peter Middleton, chairman of BZW, said that BZW "had a shortage, which we are determined to rectify, of dollar products". He said that it was likely to examine both its presence in US equities and fixed income.

Sir Peter emphasised that BZW was keeping an open mind about strategies for US expansion. "We shall do something. Either we shall grow something organically, or look for a partner, or something of that sort."

BZW has a range of businesses in the US including treasury and derivatives. It has a government bond trading licence, and a small mortgage-backed bonds desk, but its equities presence is limited to selling European and Asian shares.

BZW executives believe that it could not compete head on with the large US "bulge bracket" firms such as Morgan Stanley and Goldman Sachs. However, they think BZW needs a strong US operation in order to operate globally.

One possibility would be to form a partnership with a small US investment bank in order for both partners to gain access to each other's markets. Several smaller US securities firms have faced difficulties penetrating London markets.

Barclays previously had a small operation researching and selling US equities, which it acquired from the former Drexel Burnham Lambert. These operations were closed three years ago because they were seen as too expensive.

Barclays has been accumulating capital in the past year because of retained earnings and shrinking assets, which would allow it to expand through acquisition.

Last week it announced a buy-back of $500m in preference shares.

John Ridding reports on foreign groups interested in a big stake in computer maker

Bull sale puts France on the horns of a dilemma

The privatisation of Groupe Bull, the loss-making computer manufacturer, is the French government's most difficult task so far in its programme to sell 21 public-sector groups.

The planned privatisation, which kicked off on Friday with the opening of a tender for stakes in the company, is the first test of the government's ability to sell one of the casualties of the public sector.

It may also force the government into tough decisions concerning the extent to which it will allow foreign electronics and telecommunications groups to invest in the national computer company and penetrate the French market, possibly to the detriment of powerful domestic players, such as Alcatel and France Télécom. As one Paris banker said: "They need to sell Bull, but this may involve increased access in strategic markets for foreign companies such as NEC of Japan or AT&T of the US."

Pierre Bouzol

Jean-Marie Descarpentries: is thought to favour a large shareholding by employees

The complexity of the government's task stems from Bull's financial plight. Whereas previous privatisation candidates have all been profitable, the computer maker has been in the red since 1989, racking up total losses of more than FFr20bn ($3.9bn) as it has struggled with increasingly competitive markets, bureaucratic management and an inflated cost base.

Although losses have been curbed as a result of a cost-cutting plan by Mr Jean-Marie Descarpentries, who took over as chairman last autumn, Bull remains vulnerable in many business areas. A report this year by an independent consultancy claimed only the company's large systems and computer maintenance businesses were secure.

The legacy of losses has required a succession of subsidies. Since the start of last year, the computer maker has received FFr11.1bn in state aid, roughly three times analysts' estimates of its value. European Commission approval of such huge transfers, matched only by capital injections for Air France and Crédit Lyonnais, was granted only on condition of rapid privatisation.

Because public investors are unlikely to be attracted by such a risky proposition, the government has been constrained to seek privatisation through selling stakes to industry partners. "We are seeking to find a majority shareholder, or significant minority shareholders to allow the company to reinforce its industrial strategies," said Friday's statement from the French economy and industry ministries.

The good news is that even before the official launch of an invitation for bids, potential investors had expressed interest. NEC, which holds 4.4 per cent of Bull and supplies its partner with mainframe computers, said this month that it wanted to raise its stake. It is thought to be seeking a holding of about 10 per cent to use Bull to expand its services and supply network in Europe.

AT&T, the US telecoms company and Quadral, parent of CSEE, the French electronics concern, are weighing a joint bid for up to 40 per cent of Bull's shares. IBM, which holds a 2.1 per cent stake in its French counterpart has yet to make clear its intentions, while Motorola, which recently concluded a technology partnership with Bull, may also be a candidate for a stake. "The company holds a few trumps," said one electronics analyst. "It has a strong European base and some quality technicians."

The flurry of interest has drawn a positive response from the French government. "It is a good sign that investors are showing themselves," said Mr José Rossi, French industry minister.

But the potential proposals are likely to leave Mr Rossi and his government colleagues with some daunting decisions. The proposal from AT&T and CSEE, for example, could prove controversial.

If the offer is confirmed – so far only a preliminary letter has been sent to the government – it could solve at a stroke the privatisation conundrum. In conjunction with a bigger stake for NEC, the state would be able to obtain its objective of reducing its 76 per cent stake to a minority holding.

But there are hurdles. AT&T's interest in the privatisation does not lie in the computing side of Bull's operations. Instead, the US company is seeking to enter France's telephone services market which is monopolised by France Télécom, the state operator.

AT&T is thought to be offering to buy a large stake in Bull in return for the award of a telecoms services licence, although the French market, in line with EU policy, is not set to be liberalised until 1998.

Such a proposal throws up thorny questions for the government. France Télécom, which holds 17 per cent of Bull, is likely to resist the arrival of one of its main international rivals. Alcatel, the French telecoms equipment giant and another rival of AT&T, would also be expected to oppose such a solution.

In addition, Mr Descarpentries is thought to favour a series of smaller investments by industrial partners and a substantial shareholding by employees, rather than the presence of a powerful shareholder such as AT&T. Trade unions, wary of foreign shareholders and fearing Bull will be broken up after the sale, are planning demonstrations against the privatisation this week.

The French government declines to comment on specific proposals, but has indicated it will not oppose the presence of foreign companies on the shareholder register. "The only thing which interests me is to give the company the chance to succeed," said Mr Rossi.

Friday's statement also made clear that the French government is seeking to maintain Bull as a whole. "It would be difficult politically to allow the national computer company to be broken up," said one analyst.

The sensitivity of the issue could be blunted by the retention of a blocking stake by the state, in conjunction with France Télécom. Less problematic solutions may also emerge from proposals by potential investors or by the creation of a network of significant, but not dominant, shareholders, as sought by Bull's chairman.

But time is short. Prospective candidates have until December 9 to submit their offers, after which a selected shortlist will have six weeks to perform a detailed study of Bull before making binding proposals.

Ultimately, the state-shareholder is faced with the fact that beggars cannot be choosers. As befits Bull's troubled history, however, the choices may prove painful.

Kemper and Conseco drop merger

By Tony Jackson in New York

The $2.4bn merger between Kemper and Conseco, the US financial services groups, has been abandoned by mutual consent. The failure of the deal appears to open the door to other suitors, from GE Capital to Dean Witter Discover, who have also expressed interest in Kemper.

It is understood that the chief obstacle was Conseco's difficulty in securing finance. The merger has been beset with problems since it was announced in June, with Conseco first delaying it for lack of finance, then reducing its price from $2.7bn to $2.4bn.

Kemper's board will be under strong pressure to arrange an alternative deal. It is thought the share price could fall to $40 in the absence of a bidder, thus opening Kemper directors to legal action by their shareholders. Mr David Mathis, Kemper chairman, said yesterday: "Our board remains committed to the goal of maximising value for our stockholders, and we plan to explore all possible alternatives as expeditiously as practicable."

Until now, Kemper has been prevented from pursuing an alternative deal by its undertaking to pay Conseco $100m if it backed out. However, Kemper said yesterday that as the termination was mutual, the $100m was not now payable. "The slate is clean, and we start from here tomorrow morning."

One of the most likely bidders is GE Capital, whose earlier offer for Kemper at $60 a share had been capped by Conseco's initial bid of $67. However, Conseco's bid had been subsequently scaled down to $60 as well. It is believed that GE's interest has been reawakened in recent weeks, along with that of other potential bidders such as Dean Witter and SunAmerica.

This week: Company news

COMMERZBANK

Germany set for small offerings in 'big 3' results

Commerzbank kicks off the autumn reporting season of the big German banks on Wednesday with its 10-month results. Like other international banks, those in Germany have suffered from the downturn in bond markets which was triggered earlier this year by rises in US interest rates.

Germany's "big three" Frankfurt banks all produced half-year results which showed the effects of the turmoil. This mainly affected their profits from trading on their own account.

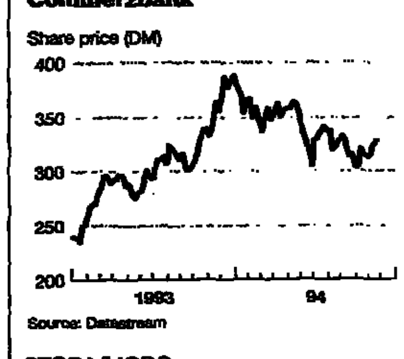
Commerzbank suffered a 68 per cent drop in trading profits for its own account to DM87m ($58.30m) in the first six months, but this was partly cushioned by a 15 per cent fall in bad debt provisions to DM710m. Full operating profits (including own account trading and normal bank business) were 11 per cent higher at DM438m. Deutsche Bank reported a 1 per cent rise in full operating profits, also suffering a sharp fall in own-account trading results.

Commerzbank, which is smaller than Deutsche Bank and Dresdner Bank – which produce their results in the next two weeks – has already put out a brief statement of its performance over the first nine months to accord with the share listing requirements of the Madrid Stock Exchange.

These showed that the group's partial operating results, excluding securities, foreign exchange and other trading on its own account, rose by 2.4 per cent to DM1.5bn. With an improvement in the net interest margin, net interest income was 7 per cent higher at DM3.8bn. Net commission income was down, while operating costs were 4.8 per cent higher.

Commerzbank said its total group assets were DM286bn at the end of September, up slightly from DM285bn on December 31. Total lending, solely in long-term credits, was 2.6 per cent higher at DM186bn.

Commerzbank



Source: Datastream

STORA/MODO

High hopes of paper groups tearing ahead

A picture of an industry in a strong recovery phase should emerge this week when Stora and MoDo, two of Sweden's leading pulp and paper groups, report their nine-month figures. Expectations are high, not least because AssiDomän and SCA, their two main domestic competitors, both raised their full-year profit forecasts last week.

Pulp and paper groups worldwide are benefiting from higher demand and a strong rise in prices after three difficult years. The impact has been felt all the more strongly by Swedish companies because of the weak krona and impressive productivity gains.

Stora, Europe's biggest pulp and paper group, is expected to announce a nine-month profit of around SKr2bn ($275m) when it presents its figures on Wednesday. The figure will be inflated by capital gains and reduced financial costs, but it will also show a stronger underlying performance. One difference from the six-month result is that the group should finally be feeling some impact from the price rises that took effect in the first half.

MoDo, which reports on Thursday, will feel the price effect more strongly because of its big exposure to pulp and fine paper where prices have increased most. Analysts expect a profit of up to SKr980m. The company is also expected to confirm it will go ahead with a SKr2bn investment in a new newsprint machine at Braviken.

OTHER COMPANIES

Japanese banks pay price for poor loans

Results to be reported this week for the six months to September will show Japan's leading commercial banks still in the mire. They are expected to report – on Thursday and Friday – yet another decline in recurring profits, before tax and extraordinary items, and in net earnings, marking a record four-and-a-half-year profits decline. Non-performing loans will once more have to be written off, a legacy of the explosion of lending, backed by over-valued properties, just before the 1990 collapse in asset prices. Sluggish demand for capital, due to corporate Japan's reluctance to invest in new equipment, has hit lending volumes.

■ **Kyocera:** The world's top maker of ceramic packages for integrated circuits will produce more cheerful news when it produces interim results today. Recurring profits are forecast to rise from Y17.39bn ($181.14m) to Y20bn, due to a sharp rise in demand from the electronics industry.

■ **Nintendo:** The producer of video games and software is expected today to show a recurring profits decline, from Y61bn to Y51bn. Like its rival Sega, which produced a profits fall a week ago, Nintendo has suffered from falling prices and demand and is hoping that a new generation of game machines will ensure a recovery.

■ **Tokyo Electric Power:** The world's largest electric power company is expected to announce a small fall in recurring profits on Tuesday, from Y58.5bn to Y58bn, despite the summer heatwave. Kansai Electric Power, the world's second-largest power group, will report better results on the same day. Analysts expect Kansai's interim profits to rise from Y49bn to Y65bn.

■ **ANZ:** The reporting season for Australia's big banks closes on Wednesday when ANZ unveils profits for the year to end-September. After the sharp recovery in Westpac's fortunes and the record result from National Australia Bank, analysts say that ANZ should manage a near-tripled profits figure of A$680m-A$690m (US$519m).

■ **Granada:** The UK broadcasting, leisure, rental and business services group, is expected on Wednesday to report pre-tax profits for the year to end-September of at least £250m ($410m), up from £176m. Earnings per share are forecast at around 30p, and the dividend is expected to be 14 per cent ahead at 10p.

■ **Thorn EMI:** After promising first-quarter figures from the music and rentals group, analysts expect a 17 per cent rise in pre-tax profits to £135m for the six months to September 30.

■ **Vodafone:** The UK's largest cellular phone group is expected to report interim pre-tax profits of £175m-£185m, only a few percentage points ahead of last year's £174.5m, as start-up costs for overseas licences start to bite. Overseas losses could reach £50m.

Companies in this issue

Scheme to reduce penalties for early redemption of policies

Standard Life's surrender bonus

By Alison Smith

The move by Standard Life, the UK's largest mutual life insurer, to offer higher surrender values to customers who cash in long-term life assurance or pension policies prematurely has aroused far more interest than expected among independent financial advisers.

But the policy of giving a better deal to customers whose plans lapse within a few years – at the expense of a small reduction in maturity value – has sparked controversy within the life sector.

Some companies believe that improving early surrender values can be unfair to investors who stay with a policy for its duration. They also fear it could undermine the very idea of the policy as a form of long-term saving.

Mr John Hylands, Standard's head of marketing, said the programme of presentations to independent financial advisers – through whom the company makes most of its sales – had been extended to the end of this week.

The company had originally expected about 2,000 independent advisers to attend, but now expects as many as 4,000 will have been to the roadshows by the presentations' finish.

Other life companies, including those which also sell primarily through independent advisers, are particularly irritated that Standard is improving its surrender values without cutting the commissions it pays to those selling its products.

Competition among those life companies is expected to intensify as a result of regulatory changes.

Under Standard's new system, which comes into effect in January, the company will finance the initial cost of paying commission – so the adviser will still get paid – and then deduct the total out of premiums paid over the whole life of the policy rather than just taking it all from the early premiums.

To finance this change, Standard will move about £50m in the first year from its free assets, which totalled £5.7bn at the end of last year, into policy reserves.

Mr Hylands said that total would rise over the following few years and would stabilise at the transfer of "a few hundred million pounds of capital".

Throughout the life assurance industry, companies have been adjusting their policies and the way they pay sales agents and advisers in preparation for the new regulatory regime, which begins in January.

Standard also has an additional factor to cope with next year in the loss of its former relationship with Halifax Building Society, the UK's largest, under which Halifax sold only Standard Life financial services' products.

The Halifax is setting up its own life assurance subsidiary in January.

Hanson abandons flotation plans for Ertl

By David Wighton

Hanson has been forced to abandon the flotation of Ertl, its US-based toy maker, because of difficult stock market conditions.

The conglomerate had been hoping to raise about $200m (£130m) from the partial US flotation as part of its debt reduction programme. It is thought it will now try for a trade sale, though a deal is unlikely to be clinched for some months.

When Hanson announced the plan in August it was hoping to sell 63 per cent of its holding, at $16 a share, valuing Ertl at about $216m.

Even at that stage analysts viewed it as a full price for a company which had pre-tax profits of $14.1m on sales of $186m in 1993. The price represented 21 times historic earnings.

Ertl, a leading US toy maker, is best known for its die-cast tractor models and Thomas the Tank Engine. It also makes the successful Bumble Ball toy.

Hanson acquired Ertl with Kidde in 1987 after a proposed $89.5m sale to Tonka collapsed.

A trade sale is likely to be at a lower rating than the planned flotation. But it would enable Hanson to sell all of the equity rather than retain a stake as is customary for such a flotation in the US.

The proposed deal had a similar structure to the Beazer Homes USA flotation, Hanson's US housebuilding business, which was completed earlier this year as part of the group's strategy of reducing debt by disposals.

Following last year's £2.2bn acquisition of Quantum Chemical, Hanson's debt jumped to £3.4bn, pushing its gearing to 86 per cent.

But because of disposals and good operating cash flow analysts expect debt to have been cut to about £2.5bn by Hanson's September year-end, for gearing of about 50 per cent.

HNVA offer for Heron near to winning approval

By Simon Davies

Shareholders, banks and bondholders will have already decided the fate of Gerald Ronson's collapsed property empire, given tomorrow's deadline for proxy votes, and Mr Steven Green appears set to emerge as the new proprietor of Heron.

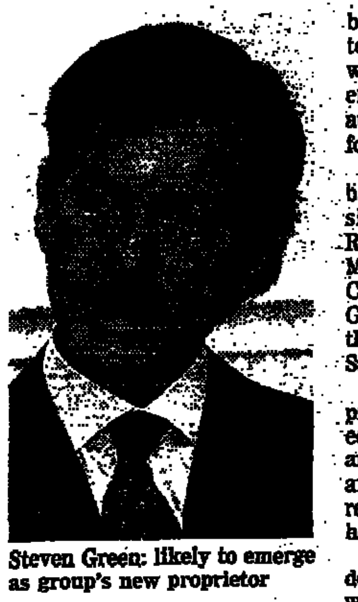
There have been small voices of dissent – unsurprising, considering investors have seen the value of their investments fall by about 85 per cent in the past 18 months – but the consensus is that Mr Green offers the best escape route.

Bankers to Heron International have not yet formally submitted head office approvals for acceptance, but it is understood that this is agreed, following an independent analysis of Heron's value.

Mr Green's investment vehicle, HNVA – he is executive chairman – offered the highest bid in an auction which attracted only limited interest.

One of the other bidders said last week: "I think it is a spectacular deal for bondholders, and if they can get this offer, good luck to them." He said HNVA's valuations for Heron's European properties appeared high.

The directors of Heron have also rallied to the HNVA cause, claiming that the only alternative, receivership,



Steven Green: likely to emerge as group's new proprietor

would realise £4,433 per £10,000 of debt, versus an HNVA offer worth £4,664. The post-receivership funds would also take a long time to resolve.

Finally, those who feel that HNVA is getting a bargain are invited to participate in the advantages by taking equity in the new investment vehicle.

Mr Gary Klesch, a specialist in distressed debt, has been one of few bondholders to stand up and oppose the deal, urging fellow investors that "there is still value worth fighting for".

He raised the issue of the precise identity of the HNVA backers and hinted at the existence of an alternative buyer – which seems unlikely, considering the limp response to the auction and the close deadline for the HNVA offer.

HNVA has stated that its backers include high profile shareholders such as Mr Rupert Murdoch and Mr Craig McCaw, chairman of McCaw Cellular Communications. Mr Green has also proven himself through his turn-around of the Samsonite business.

A more important issue for prospective takers of the equity should be the fact that an enforced change in Heron's articles of association will remove most standard shareholder rights.

Remuneration will be decided by the directors; there will be no requirement for non-executive directors; and proposals which previously required 75 per cent shareholder approval will now require only a majority, which Mr Green will control.

This means that future investors would need to feel extremely confident in the integrity and ability of the new management.

Merchant bankers connected to the deal suggested that the equity take-up would fall below 30 per cent, but that the buy-out would succeed.

Even Mr Klesch admitted: "I think this deal will go through."

Battle for Dunnes ends with brother Ben selling stake

By John McManus

A two-year battle for control of the Republic of Ireland's largest retailer, Dunnes Stores, has ended. Mr Ben Dunne, the former executive chairman and a 19 per cent shareholder in the company is to be bought out by his brother and two sisters for a reported I£100m (£98.3m).

In return Mr Dunne is to drop his legal action to have the family trust, through which the company is owned, broken up. The case was expected to be heard by the Irish High Court last week but was repeatedly adjourned while a settlement was hammered out.

If he had been successful in breaking up the trust Mr Dunne planned to bring a second action to force his family to buy him out or sell their shares to him.

Mr Dunne brought his action after being removed from the position of executive chairman in March 1993. He was voted out by a board made up of his brother Frank and three sisters, Mrs Margaret Hefferman, Miss Therese Dunne and the now-deceased Mrs Elizabeth McMahon, who supported him.

Mr Dunne was claiming that the trustees' decision to extend the trust after it was due to expire in 1985, was improper and had no legal effect.

A break-up of the trust would have allowed the shares in the company to be sold, but could also have exposed the beneficiaries of the trust, including Mr Dunne, to capital gains tax liabilities.

The details of the settlement have not been released but it is understood that Mr Dunne could receive up to I£100m in phased payments over a number of years.

He is expected to agree not to set up in competition with Dunnes Stores for at least 12 months. Despite this, shares in Dunloe, Mr Dunne's property concern, jumped by 5p to 35p last week prompting it to issue a statement denying it was in any commercial negotiations that might explain the rise.

Dunloe has been suggested as the possible vehicle by which Mr Dunne could set up in competition with Dunnes Stores.

Co-operatives consider merger

By David Blackwell

Two Midlands co-operative societies are considering merging to form one of the largest co-operatives in the UK with an annual turnover of more than £600m.

The Central Midlands Co-operative Society and Leicestershire Co-operative Society have established a working party which is expected to come up with proposals by the end of next month.

The merged societies would have 8,000 employees and cover Warwickshire, Leicestershire, Derbyshire, Nottinghamshire, Staffordshire, and Northamptonshire as well as Oxfordshire and Buckinghamshire. Last year the CMCS achieved pre-tax profits of £8.8m, while the LCS made £3.5m.

The CMCS said that both societies were financially strong, and the merger would be a consolidation of strength that could lead to further expansion.

The new society would have 170 food stores, including 14 superstores, and would be a leading regional dairy, bottling 1m pints of milk a day. It would also be the Midlands' largest funeral director, with 42 funeral homes.

NEWS IN BRIEF

APTA HEALTHCARE rights issue has been accepted in respect of 14.1m shares or 74.4 per cent.

BETTERWARE has sold a property in Hampshire for £2m.

BM GROUP has been allowed to extend its offer for the Blackwood Hodge preference shares to allow holders enough time to consider further information on Blackwood.

FOREIGN & COLONIAL Emerging Markets Investment Trust offer of 30m C shares has been taken up in respect of 28.7m shares.

MALAYA: Recent open offer received applications for 25.3m shares (42 per cent).

MEDIA TECHNOLOGY's offer for Faxcast Broadcast declared wholly unconditional after receiving valid acceptances for 81.7m shares (67.9 per cent). Offer remains open until further notice.

METRO RADIO Group: Radio Authority has re-awarded AM and FM licences for Bradford/Huddersfield area to Pulse FM, group's Bradford-based station. Licence runs for eight years from early December.

NEWPORT HOLDINGS has sold residential properties in Hove and Eastbourne for £682,500 cash.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
BASF (Germany)	Unit of Boots (UK)	Pharmaceuticals	£850m	Boots to focus on retail
Browning-Ferris Industries (US)	Attwoods (UK)	Waste management	£391m	Increase too finely tuned?
Thomson Corp (Canada)	Medstat (US)	Electronic publishing	£207m	Strengthening sector presence
Shawmut (US)	Unit of Barclays (UK)	Banking	£177m	Barclays continues US sales
Royal Dutch/Shell (UK/Netherlands)	Monteshell (Italy)	Oil refining	£95m	Montedison restructuring
Siebe (UK)	Triconex (US)	Measuring equipment	£55m	Recommended tender offer
Amer (Finland)	Atomic (Austria)	Sporting goods	£51m	Strengthening core business
Polygram (UK/Netherlands)	RAL/Def Jam (US)	Music publishing	£20m	Buying half of rap label
GE Capital (US)	Sabre (UK)	Financial services	£8.4m	Union Discount exits leasing
TRW (US)/Teleglobe (Canada)	Joint Venture	Mobile telecoms	n/a	Satellite odyssey

COMPANIES AND FINANCE

Deutsche Telekom sell-off decision expected today

By Andrew Fisher in Frankfurt

One of the most keenly awaited decisions in the investment banking world is expected to be taken in Bonn today when Chancellor Helmut Kohl meets with Deutsche Telekom to decide which banks will handle the DM15bn ($9.7bn) partial privatisation of the German telecommunications concern.

The main interest centres on which foreign investment bank will be chosen as global co-ordinator for the sale of Telekom shares to international investors. Goldman Sachs of the US is the most favoured candidate for this role, which will involve working with the two big German banks - Deutsche Bank and Dresdner Bank - expected jointly to head the overall issue.

However, other US and European banks are strongly in the running.

European banks have made clear their feeling that the post of global co-ordinator should go to one of them and not a US institution.

Altogether, 22 foreign banks from the US, Europe and Japan put their cases (in a so-called beauty contest) in Bonn to the government and Telekom.

Among those whose chances are also rated highly are Merrill Lynch and Morgan Stanley of the US and S.G. Warburg of the UK.

Also to be decided is the role of adviser to the government on the Telekom issue.

CS First Boston has put itself up for this position only, though other banks are interested.

The chancellor is scheduled to meet this afternoon with Telekom and the finance and postal ministries. The decision is expected to be announced quickly.

Apart from the global co-ordinating role, other banks will be chosen to manage the regional consortiums for north America, Europe and Asia.

Telekom has said a British bank could well have a senior consortium role because of the importance of the UK stock market.

Although the sale of 25 per cent of Telekom's shares will not take place until early in 1996, with another tranche in 1998, the issue will have important consequences for the development of German financial markets and domestic investment in equities.

About half the shares are likely to be sold to German institutional and private buyers.

SCA lifts forecast after strong nine months

By Christopher Brown-Humes in Stockholm

SCA, Sweden's second largest forestry group, has raised its 1994 profits forecast after doubling profits to SKr1.59bn ($217m) in the first nine months.

The improvement came in spite of a much weaker performance from Mölnlycke, SCA's hygiene division, which has been hit by competition in the European nappies market.

The company has had to cut nappy prices and lift marketing costs since the US group Kimberley Clark entered the market, adding to the competitive pressures imposed by Procter & Gamble. It has maintained market share but says competition in France is getting tougher.

Excluding one-off items, SCA's profits after financial items rose to SKr1.42bn from SKr788m on a 5 per cent rise in underlying sales to SKr24.7bn. The result was driven by higher volumes and prices in SCA's traditional forest industry businesses and lower financial costs.

Earnings from the group's graphic paper division tripled to SKr228m from SKr76m, while the forest and timber unit doubled profits to SKr559m from SKr267m. Packaging operations improved slightly to SKr531m from SKr526m.

Mölnlycke's operating profit fell 19 per cent to SKr663m. The unit, which did much to sustain SCA during the downturn in the pulp and paper cycle, has become its main source of concern and a savings programme is planned. The difficulties are entirely related to the nappies segment.

The full-year profit forecast has been re-estimated at SKr2.1bn to SKr2.3bn against an earlier SKr1.9bn to SKr2.3bn prediction.

The company says the improving European business climate is helping price increases feed deeper into the paper product range, spreading from "raw material sectors" to "more refined products".

UK paper war hits Hollinger

By Bernard Simon in Toronto

The Daily Telegraph's decision to join the UK newspaper price war last spring has taken a toll on the third-quarter earnings of Hollinger, the Canadian holding company controlled by Mr Conrad Black, the Telegraph's proprietor.

Hollinger's net earnings dipped to C$4.6m ($3.4bn), or five cents a share, from C$6.8m, or nine cents, in spite of a 47 per cent jump in revenues.

The latest figures include a foreign currency loss of C$2.6m, against a C$7.7m gain last year, due mainly to fluctuations in the value of cash deposits held in sterling.

The increase in revenues, to C$313.9m from C$213.7m, mainly reflects the acquisition of the Chicago Sun-Times earlier this year as Mr Black's North American flagship paper. Hollinger has a 57 per cent stake in the Telegraph, which earlier reported a fall in third-quarter earnings to £2.6m (US$4.26m) from £8.1m.

Third-quarter income before unusual items, taxes, minority interest and foreign exchange adjustments, totalled C$30.5m, up from C$21.6m. Equity earnings, mainly from Australia's John Fairfax Holdings, which is 25 per cent-owned by the Telegraph, rose $15.3m.

Western Mining sees profits rise

By Nikki Tait in Sydney

Western Mining Corporation, one of Australia's largest mining companies, has forecast an "appreciable" increase in first-half profits for 1994-95.

It said if improved prices for its metal products continued into the second half, the full-year should also see higher results.

In the financial year to the end of last June, WMC made a profit - after tax but before abnormal items - of A$119.7m (US$88.6m) down 27.8 per cent on the previous year's figure.

At the annual meeting in Kalgoorlie, Sir Arvi Parbo, WMC's chairman, said the East Spar gas field off the north-west coast of Western Australia was to be developed at a cost of A$250m. WMC is operator of the joint venture, and holds a 30 per cent interest in the field. Sir Arvi said the field had reserves of about 350bn cubic feet of gas and 25m barrels of condensate. Development of the project will take place over the next two years.

The chairman said WMC wanted to become a much larger producer of copper - its main operations are at Olympic Dam in South Australia and Nifty in Western Australia - and was exploring in the Philippines and Chile as well as its home country.

The company hoped to expand its European talc activities and was considering the production of high analysis fertilisers for Australia.

● State Bank of New South Wales, which the state government is planning to sell to Colonial Mutual Life for A$576.5m, announced operating profits of A$70.5m before tax.

After-tax profits rose 87 per cent, to A$40.1m.

VW revises Skoda production plan

By Kevin Done, Motor Industry Correspondent

Volkswagen, the German carmaker, has agreed to raise the production capacity of Skoda, its Czech affiliate, to 340,000 units a year by the late 1990s from about 230,000 at present.

The deal, initialled by VW and the Czech government on Friday, has won Prague's backing for a revised development plan for Skoda and includes a commitment to develop further the Czech car components industry.

It opens the way for Volkswagen to raise its 31 per cent minority holding to 60.3 per cent by the end of December - including the conversion of preference stock into ordinary voting shares - and to 70 per cent by the end of 1995.

VW will have paid DM1.4bn in three tranches for the 70 per cent stake - DM200m ($129m) to the Czech government for the acquisition of part of its holding and DM1.2bn in new equity capital for Skoda.

Renegotiation of the contract, which was agreed in 1991 and gave VW management control, was forced by VW's withdrawal, without warning last autumn, from a DM1.4bn project finance facility for Skoda.

The move caused consternation in Prague, which has been seeking reassurance ever since about the level of VW's commitment to Skoda.

In early 1991, VW had said it planned capital investments totalling DM9.5bn for Skoda by the end of the decade, that it would more than double Skoda's production capacity to about 390,000 cars a year and would build a new engine plant.

Under the revised deal VW has won approval for a more modest capacity expansion, and has dropped the engine plant plan. The current capital spending plan totals around DM3.7bn from 1991 to 2000, but this could be reduced if VW can find additional investment cost savings.

Under the new agreement VW's plans include:

● Development of a second car range for Skoda due for launch in 1996-97, code-named A+.

The larger Skoda range will be derived from the VW group's so-called 'A' platform, which will also form the basis for the next generation VW Golf in the late 1990s and be used initially for a new range of small Audis - the group's up-market brand - due for launch in mid-1996.

● A new paint plant at Skoda's main production facility at Mlada Boleslav. It will have a capacity for 1,300 cars a day, or 307,000 a year.

● A new assembly plant for the second car range with a capacity in the first phase for 70,000 cars a year, which could be raised to 90,000 a year.

● Development of Skoda's existing all-aluminium 1.3 litre engine for use in its planned car ranges and for possible use by Seat, the VW group's Spanish subsidiary.

Orix, Nippon Shinpan advance

By Gerard Baker in Tokyo

Orix and Nippon Shinpan, two leading Japanese financial services companies, reported slightly higher profits for the six months to September in spite of falls in operating revenues. Both said their improved profitability was a result of efforts to reduce funding costs.

Orix, the country's largest leasing company, saw recurring profits - before extraordinary items and tax - rise 6.2 per cent to Y17.9bn ($102.4m) from the same period a year earlier.

In spite of the continued weakness of capital expenditure at home, the company recorded an increase of 2.6 per cent in outstanding operating assets, to Y4.0trn. Total turnover fell 6.2 per cent to Y157.0bn as interest rates were lower during the period than a year earlier. Expenses fell 7.6 per cent to Y139.0bn, because of lower borrowing costs and a greater emphasis on diversifying sources of funding. After-tax profits fell 1.4 per cent to Y9.3bn.

The company forecast an increase in recurring profits of 5.2 per cent to Y36bn for the full year to next March on turnover ahead 1.7 per cent at Y331bn.

Nippon Shinpan, one of the leading credit card operators, reported recurring profits of Y5.02bn for the half-year, 0.7 per cent higher than a year earlier. Operating revenues fell 0.3 per cent to Y186.6bn while after-tax profits rose 7.2 per cent to Y2.2bn.

The company said the improved profits were attributable to reductions in costs in order to develop new loan services. Nippon Shinpan is diversifying its activities from shopping credit to housing and consumer loans. For the full year to March it forecast a rise of 4 per cent in recurring profits to Y13bn.

Ricoh ahead despite slack investment

By Michiyo Nakamoto in Tokyo

Ricoh's lead in digital copiers and its cost-cutting measures helped it to raise non-consolidated profits strongly in the first half, in spite of sluggish capital investment.

The Japanese manufacturer of office automation equipment posted a 63 per cent rise in recurring profits - before extraordinary items and tax - to Y10.1bn ($103m) from Y6.2bn a year earlier. The increase came on the back of a 3 per cent rise in sales to Y305.3bn from Y295.2.

Ricoh suffered from slack private capital investment in Japan and the impact of a high yen on exports. Nevertheless, it was able to increase sales in most of its leading product lines. Sales of copiers, accounting for 68 per cent of the company's sales, increased at home and overseas, climbing 8 per cent in total.

Information equipment enjoyed a rise in demand both in domestic and export markets, with sales increasing 5 per cent overall.

The company forecasts full-year sales to rise 3 per cent to Y616bn from Y596.8 and recurring profits to rise 40 per cent to Y20.5bn from Y14.6bn. Net income is forecast to increase 77 per cent to Y12.7bn, compared with Y7.2bn

Pioneer slips into red at halftime

By Michiyo Nakamoto

Declining revenue from sales of karaoke equipment is calling the tune at Pioneer, the Japanese manufacturer of specialist audio-visual electronics. The company made a net loss in the six months to September, and indicated that some 1,300 jobs may have to go during the next five years.

A strong yen and falling prices in the consumer electronics market, and lower demand for karaoke equipment, combined to help push Pioneer to a consolidated net loss of Y761m ($7.8m) in the first half, compared with a profit of Y7.7bn at the same stage a year ago. Revenues slipped to Y129.2bn from Y130.9bn previously.

Recurring profits - before extraordinary items and tax - fell to Y3.7bn from Y7.9bn, although last year's figure included an exceptional gain.

It plans to focus on car navigation and audio systems which are expected to be more promising than karaoke and laser disc systems.

● Japan Tobacco, the Japanese cigarette monopoly, posted a rise in interim earnings thanks to declines in raw material costs, writes Emiko Terazono in Tokyo.

The company, listed on the country's leading stock exchanges last month, said recurring profits for the first six months to September rose 7.7 per cent to Y66.9bn as a result of a fall in tobacco leaf costs due to the higher yen. The company increased the amount of imported tobacco leaves since the domestic product costs three times as much.

Sales fell 0.5 per cent to Y1,372.4bn. The company lost 1.6 points of its share in the domestic market to foreign cigarette makers while the overall market only grew 0.6 per cent. After-tax profits rose 3.1 per cent to Y41.4bn.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 18, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5409.60	3447.8	2218.96	3499.55
Albania	(Lek)	157.570	100.427	64.6334	101.934
Algeria	(Dinar)	63.9117	40.734	26.2158	41.3453
Andorra	(Fr French)	8.3737	5.3369	3.4348	5.417
	(Sp Peseta)	202.999	129.381	83.2679	131.323
[illegible]					
Gambia	(Dalasi)	15.2086	9.6938	6.2388	9.8393
Germany	(D-Mark)	2.4379	1.5537	1	1.5771
Ghana	(Cedi)	1607.20	1024.35	659.258	1039.72
Gibraltar	(Gib £)	1.00	0.6373	0.4101	0.6469
Greece	(Drachma)	375.764	239.493	154.134	243.087
[illegible]					
Pakistan	(Pak. Rupee)	48.0403	30.6184	19.7056	31.0779
Panama	(Balboa)	1.5690	1	0.6435	1.015
Papua New Guinea	(Kina)	1.8264	1.164	0.7491	1.1815
Paraguay	(Guarani)	3010.56	1918.78	1234.9	1947.57
Peru	(New Sol)	3.4242	2.1824	1.4045	2.2151
[illegible]					

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FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Gerard Baker in Tokyo

The fight for the dollar

It is Thanksgiving Week in both the US and Japan, and currency markets will have an opportunity, over the turkey and the *sake*, to review the latest developments in the struggle for the dollar.

Last week, the ailing currency received assistance from two quarters.

The Federal Reserve's decision to raise short-term interest rates by 75 basis points on Tuesday was backed up by the release of trade figures on Friday showing a slight fall in the US deficit with Japan. But after a brief rally on both days, the doubts set in again, and with good reason.

The key to any dollar recovery remains the disequilibrium in the balance of payments between the US and Japan.

That imbalance creates, in turn, a mismatch between world supply of, and demand for, dollars.

The US currency's oversupply is caused principally by a growing funding requirement in the US balance of payments and a lack of demand for the dollars that are consequently being poured out into the world's financial markets.

Without either a sharp fall in the supply of dollars or a sharp increase in demand for them, there will be no respite.

It is worth examining the development of this supply/demand disequilibrium in some detail.

The US current account deficit declined at the end of the 1980s, as slower growth cut imports.

In 1991 the deficit hit bottom – in fact it was almost eliminated – thanks largely to once-only transfers received during and immediately after Operation Desert Storm. But since then, the gap has widened again. Last year it was back in 12 figures, and in the first half of 1994 was $69bn. For the full year it is expected to reach $150bn – its highest since 1987.

The primary cause of the deterioration has been the unsynchronised nature of the global recovery – the US economy, growing at an annual rate of more than 4 per cent for nearly two years, has sucked in imports, while US exporters have struggled in weak overseas markets.

This decline in the trade and current accounts has meant dollars have been flooding the currency markets.

But while in the past those outflows have been funded by long-term capital inflows, the capital account has now added to the funding gap.

Even at the peak of the deficit in 1987, net inward direct investment and portfolio investment accounted for almost two thirds of the current account deficit. But last year, for the first time for more than a decade, both portfolio investment and direct investment represented net outflows.

The combined effect of deficits on both the current and long-term capital account left the US with an external funding requirement, met by inflows of short-term, "hot" money, of more than $150bn, a figure much higher than at any time in the deficit years of the 1980s.

The counterpart to all those dollars is, of course, a scarcity of Japanese yen. In Japan the picture is a mirror image of the US problems. The current account surplus, though falling slightly this year in yen terms, is rising still in US dollars as a result of the J-curve effect – the higher price of exports initially outweighing the slight fall in demand for them. And in the past three years the absence of Japanese investors from world markets has meant the country has been running an additional surplus on its capital account.

With no early sign of a significant slowdown in demand growth, US imports will continue to grow until well into next year. And even though rising demand abroad will help exports, the high level of capacity utilisation in the US will make it difficult for exporters to respond to those opportunities. So the trade deficit seems set to rise further.

More troubling in the longer term is that the rest of the current account is being weakened by large outflows of investment income. The United States' change in the 1980s to the status of debtor nation means that for the first time since 1914 the volume of debts overseas will push the US into deficit on this account – by about $5bn this year and more in the years ahead.

In Japan the trade surplus is set to fall only gradually. Strong growth overseas, particularly in Asian markets, is helping exports, and will largely offset higher imports as the economy recovers. Overseas investment adventures in the 1980s will produce a significant surplus on the investment income line of the current account – as much as $60bn a year by the end of the decade, according to some estimates.

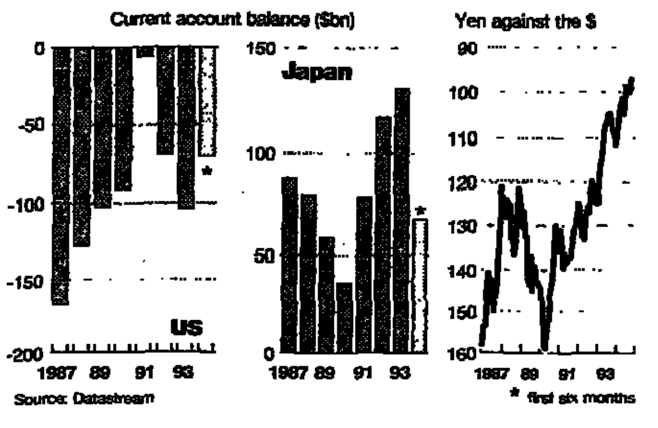
Since the current account is unlikely, therefore, to show any sharp improvement in the next year or two, the dollar's movement depends on the capital account. That account is, of course, both the problem and the solution to it. If foreigners, principally Japanese, can be persuaded to invest in stocks and bonds in the US, there is a chance that the weight of excess supply will be diminished. But can they?

Two things will make Japanese investors return to US assets – either a further fall in the dollar to the point from which they believe it can only rise, or a higher relative return on US assets. While yields on US bonds and even equities have been rising as prices have fallen, the relative increase has been much smaller, as Japanese yields have also risen. The return on the US long bond has risen by a little under 3 per cent in a year, but in Japan, the yield on the equivalent bond has gone up by nearly 2 per cent. The differential yield on equities is similar, since in the past four months, Japanese share prices have fallen faster than US ones.

But surely higher short-term rates in the US will entice Japanese investors. In the past, according to Mr Ronald Leven of Morgan Guaranty in New York, a short-term interest rate differential between the US and Japan of at least 300 basis points has been necessary to prompt a sustained upturn in the dollar. Last week's move by the Fed put the spread at just above that level. But the current steep US yield curve acts as a disincentive to Japanese investors, who need a much flatter yield curve if they are to currency-hedge any bond purchases.

More important, Japanese institutional investors have become much more risk-averse since their debacles overseas in the late 1980s. Many of them continue to see the weight of dollar supply as too large a downside risk for dollar assets. They prefer to wait for a further fall in the US currency before they are prepared to end their investment strike.

US Japan trade: out of balance



Total return in local currency to 17/11/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.04	0.09	0.10	0.16	0.09
Month	0.42	0.19	0.41	0.45	0.69	0.47
Year	3.69	2.19	5.38	5.93	8.38	5.44
Bonds 3-5 year						
Week	-0.25	0.15	-0.14	-0.09	-0.57	0.46
Month	-1.19	0.41	-0.05	0.10	1.02	0.69
Year	-3.11	-0.36	0.38	-0.76	2.10	0.18
Bonds 7-10 year						
Week	-0.17	0.29	-0.50	-0.33	-0.77	0.40
Month	-1.77	0.52	-0.83	-0.55	0.65	0.45
Year	-7.53	-2.31	-4.26	-7.09	-4.19	-4.08
Equities						
Week	-0.1	0.9	0.8	1.8	-1.3	0.9
Month	-0.7	-3.4	0.5	4.1	-0.2	0.6
Year	3.0	-0.7	0.1	-3.1	19.7	4.6

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities.
The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

COMMODITIES Richard Mooney

Options open up at IPE

As traders at London's International Petroleum Exchange await news from this week's ministerial meeting of the Organisation of Petroleum Exporting Countries in Bali they will have a more efficient tool available for responding to market-moving developments.

Today sees the introduction of a market makers' scheme for the Brent crude option contract, which, according to IPE chief executive Peter Wildblood, "will increase accessibility" to the contract.

Initially, three market makers – Crédit Lyonnais Rouse, Société Générale Options UK and City of London Options – have undertaken to staff the options pit at all times and to provide a bid and ask price on a continuous basis "within certain parameters laid down by the exchange" for a minimum number of lots.

The IPE expects other members to join the scheme later.

"This initiative by the exchange is a necessary complement to our successful futures contract, which is now recognised as the predominant international benchmark for crude oil," says Mr Wildblood.

● Other events this week include the release today of October production figures by the International Primary Aluminium Institute. This should give an indication of whether last week's heavy drawdown from LME warehouse stocks of the metal – which helped to drive London Metal Exchange prices to four-year highs – can be expected to continue.

The stocks fall of nearly 50,000 tonnes announced on Friday took the total for the week to about 64,000 tonnes. At 1.91m tonnes the exchange stock pile is now down by about 28 per cent from the record level reached in June.

In Washington tonight the US Department of Agriculture will issue its latest wheat situation and outlook summary.

In London tomorrow Futures and Options World magazine's Investing in Commodities seminar will be held. Speakers will include representatives of the World Bank, the London Commodity Exchange and the Securities and Futures Authority.

Economic Eye / Martin Wolf

Managing China's emergence

Two world wars and the great depression of the first half of the century were caused by the failure to cope with the arrival of the US, Germany and Japan. The impact of a re-invigorated China could be as disruptive.

Three considerations are relevant to assessing that impact: the scale and nature of China's prospective economic interaction with the rest of the world; the extent to which that interaction might be manipulated by the Chinese government for political ends; and, finally, the degree to which the economy will give China the basis for enhanced military power.

By 1992, mainland China had become the most important single developing country in world merchandise trade, its two-way trade being $165.6bn (see chart), which was 2.3 per cent of total world trade. But China's total trade was behind that of Belgium, let alone the US, Germany or Japan. Meanwhile, China's share of world trade in commercial services was less than 1 per cent. The combined trade of China, Taiwan and Hong Kong was $383.4bn, which put the "Chinese economic area" above Italy. But this includes trade among the three entities. Furthermore, the Chinese government does not control Hong Kong's trade, let alone Taiwan's.

Between 1980 and 1992 the volume of China's exports expanded at an average annual rate of 11.9 per cent, while the volume of US exports expanded at 3.8 per cent. If those rates of growth were maintained, China would become the world's largest single exporter by 2015. China's exports could conceivably grow this rapidly. But things would have to go perfectly, which is highly unlikely.

Meanwhile, despite high rates of national saving, China is unlikely to be a large exporter of capital for decades. China is, however, a large importer of capital. By 1993, it had attracted almost $60bn in over 70,000 enterprises.

How far could the government manipulate China's growing presence in the world economy for political ends?

China's most successful exports have been light manufactures. By 1992, for example, it had become the world's largest exporter of clothing, which accounted for 20 per cent of its exports. Yet China has no monopoly power in such markets. It is its import market that gives it leverage, as does the inward foreign investment. The value of these chips was made clear by China's victory in its conflict with the US over renewal of most-favoured nation treatment. They would also be effective in any struggle over trade and the environment, or trade and labour standards.

A country's ability to use access to its import market as a weapon depends on how significant imports are to its economy. The US derives leverage from the fact that it is the world's largest trader, but has a fairly low ratio of trade to GDP. Measured at market prices, China's economy is about as open as that of France and twice as open as that of the US. Measured at purchasing power parity, however, it is the least open of the economies shown in the chart.

How is this to be interpreted? The low productivity services that bulk large in GNP at PPP depend little on trade. But, without trade, rapid growth would also be unfeasible. China is not dependent on trade if it is content to stay poor, but it does need trade for rapid growth.

What about China's military potential? The economic bases of military power are manpower, industrial output, technology, and the ability to divert resources from civilian uses. The first China has in abundance. But its industrial output is about 10 per cent of that of the US. Even if it were to sustain growth at 10 per cent a year, it would take a generation for China to match the US. Even then, the country's technological level is almost certain to lag behind those of the US (and Japan).

Such lags might be still more important in determining relative military capacity then than they are today. Finally, reform has itself been eroding the government's capacity to obtain resources.

What are the conclusions? First, it should take at least 20 to 30 years before China becomes a genuine superpower. Even then the US is likely to remain more militarily capable and economically influential.

Second, even to achieve this China must sustain its performance of the past 15 years. But, as Susan Shirk points out in her important new book, it would be wrong to assume the transition from communism to the market economy will continue to go quite smoothly.* Among other problems, the opportunities for wealth and influence now afforded to officials are themselves an important obstacle to further reforms.

Finally, China's emergence needs to be managed intelligently. The most important requirement is for the industrial countries to engage the Chinese within international arrangements for whose principles they themselves show respect. In that way, norms of civilised international living should be incorporated within China, as a result of changes in its own laws.

Thus, even if last week's summit of the Asia-Pacific Economic Co-operation forum does not lead to free trade by 2020, the forum can play a valuable role in bringing China closer to its neighbours. China should also be accepted as a member of the World Trade Organisation provided it adopts rule-based and transparent trade policies.

Finally, China already seems a more obvious candidate for the group of seven leading industrial countries than Russia.

**Susan L Shirk, How China Opened its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms (Washington DC: The Brookings Institution, 1994).*

How the trading powers rank, 1992

	Total ($bn, exports + imports)	Trade % of GDP	Trade % of GNP*
US	1,002.1	16.9	17.0
Germany	868.6	46.9	50.5
Japan	573.1	15.6	22.8
France	475.4	36.0	43.1
UK	411.5	45.6	42.6
Italy	366.7	30.0	36.8
Netherlands	273.7	85.5	102.5
Canada	263.3	53.3	48.7
Belgium-Lux	248.0	106.6	117.2
China	165.6	32.7	9.5
Spain	164.1	28.5	31.9
Korea	158.4	53.5	40.5

Source: GATT, World Bank
* at purchasing power parity

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

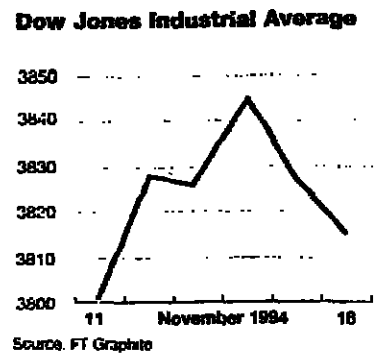
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 18 1994 US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THURSDAY NOVEMBER 17 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	166.56	-0.2	157.37	103.73	134.56	146.08	-10.7	3.90	164.99	155.38	102.36	132.78	145.91	189.15	149.36	158.19
Austria (16)	177.33	-4.1	167.55	110.44	143.28	143.22	-14.0	1.14	177.92	167.55	110.38	143.18	143.08	198.89	167.46	174.74
Belgium (35)	166.43	2.3	157.26	103.65	134.45	131.16	-9.6	4.21	166.95	157.22	103.57	134.36	131.05	177.04	151.70	153.76
Brazil (28)	179.16	-	169.30	111.59	144.75	276.73	-	0.75	184.92	174.15	114.72	148.82	283.37	-	-	-
Canada (103)	129.39	-4.7	122.25	80.58	104.52	126.04	-1.6	2.67	130.31	122.71	80.84	104.87	126.68	145.31	120.54	133.67
Denmark (33)	250.04	1.1	236.25	155.72	201.99	206.69	-9.5	1.44	250.88	236.27	155.64	201.91	206.54	275.79	230.27	236.30
Finland (24)	191.48	55.4	180.92	119.25	154.69	191.02	27.6	0.74	193.50	182.22	120.04	155.72	192.75	201.41	116.85	124.37
France (102)	167.26	-5.0	158.04	104.17	135.12	140.03	-14.1	3.06	166.37	156.66	104.45	135.50	140.46	185.37	159.34	165.01
Germany (58)	142.58	1.7	134.72	88.80	115.18	115.18	-9.0	1.80	143.29	134.94	88.90	115.32	115.32	150.40	128.37	132.69
Hong Kong (56)	380.55	-22.2	359.57	237.01	307.44	377.74	-22.2	3.17	384.34	361.95	238.44	309.32	381.53	506.56	341.29	379.10
Ireland (14)	202.79	9.5	191.60	126.29	163.82	184.78	-0.2	3.46	204.68	192.75	126.98	164.72	186.30	216.80	172.05	175.37
Italy (59)	77.89	13.6	73.59	48.51	62.92	92.67	5.7	1.70	76.70	72.23	47.59	61.73	90.97	97.78	57.88	62.46
Japan (468)	155.15	19.2	146.59	96.62	125.34	96.62	5.2	0.80	156.27	147.17	96.95	125.77	96.95	170.10	124.54	146.33
Malaysia (97)	519.97	-12.1	491.30	323.84	420.07	513.86	-16.3	1.63	521.86	491.46	323.76	420.00	515.49	621.83	430.71	465.59
Mexico (18)	1981.70	-17.0	1872.41	1234.18	1600.92	7480.07	-7.8	1.37	2009.77	1892.67	1246.83	1617.43	7584.02	2847.08	1696.28	1984.89
Netherland (19)	212.38	6.7	200.67	132.27	171.58	168.79	-4.4	3.42	214.31	201.82	132.95	172.47	169.68	223.30	187.01	190.40
New Zealand (14)	75.27	10.8	71.12	46.88	60.81	64.06	-0.6	4.53	74.81	70.45	46.41	60.21	63.86	77.59	61.27	64.83
Norway (23)	196.58	9.4	185.73	122.42	158.80	181.51	-1.0	1.82	196.65	185.20	122.00	158.28	180.88	211.74	165.52	179.02
Singapore (44)	393.16	7.0	371.48	244.86	317.63	266.19	-2.3	1.59	396.70	373.59	246.11	319.27	269.01	401.38	294.66	312.69
South Africa (59)	337.49	26.3	318.87	210.18	272.64	304.06	21.4	2.12	336.14	316.56	208.54	270.52	305.27	342.00	205.65	227.63
Spain (38)	141.58	1.8	133.77	88.18	114.38	138.78	-8.0	4.22	141.39	133.16	87.72	113.79	138.16	155.79	128.88	138.69
Sweden (36)	241.88	23.2	228.55	150.64	195.41	262.50	8.3	1.52	240.70	226.67	149.33	193.71	261.58	242.68	175.83	196.48
Switzerland (47)	162.67	1.8	153.70	101.31	131.41	132.67	-10.0	1.83	164.19	154.63	101.86	132.14	132.41	178.56	146.04	148.39
Thailand (46)	171.62	-	162.15	106.88	138.64	166.58	-	2.09	174.68	164.51	108.37	140.58	169.59	-	-	-
United Kingdom (204)	199.73	-2.6	188.71	124.39	161.35	188.71	-6.2	4.07	200.16	188.49	124.18	161.09	188.49	214.96	181.11	187.04
USA (515)	188.73	-0.6	178.32	117.54	152.46	188.73	-0.6	2.90	189.56	178.52	117.60	152.56	189.56	196.04	178.95	188.72
Americas (664)	176.28	-	166.57	109.79	142.42	146.54	-	2.83	177.20	166.86	109.93	142.61	147.27	-	-	-
Europe (706)	171.35	1.7	161.90	106.72	138.43	152.45	-7.7	3.07	171.89	161.87	106.64	138.33	152.33	178.56	154.79	158.09
Nordic (116)	229.77	21.2	217.10	143.10	185.62	214.02	6.0	1.38	229.75	216.36	142.53	184.90	213.87	233.91	173.19	187.15
Pacific Basin (793)	164.62	13.5	155.55	102.53	133.00	107.16	1.3	1.14	165.71	156.06	102.81	133.36	107.56	176.86	134.79	155.04
Euro-Pacific (1501)	167.35	7.9	158.12	104.22	135.19	125.01	-2.7	1.98	168.20	158.40	104.35	135.36	125.23	175.14	143.88	158.19
North America (618)	185.05	-0.7	174.84	115.25	149.49	184.57	-0.7	2.89	185.89	175.06	115.32	149.60	185.39	192.73	175.67	185.30
Europe Ex. UK (504)	152.53	3.4	144.12	94.99	123.22	131.25	-7.2	2.47	153.09	144.17	94.98	123.21	131.16	158.12	135.94	139.41
Pacific Ex. Japan (325)	256.10	-10.7	241.98	159.50	206.90	226.06	-15.3	2.88	256.96	241.99	159.42	206.80	227.34	296.21	232.64	239.10
World Ex. US (1709)	169.15	7.5	159.82	105.35	136.65	128.66	-2.4	1.99	170.05	160.14	106.50	136.85	128.95	176.65	145.59	157.44
World Ex. UK (2020)	172.19	6.1	162.70	107.24	139.11	143.04	-1.1	2.11	173.11	163.02	107.39	139.31	143.53	178.69	155.96	164.92
World Ex. Japan (1756)	186.83	-0.5	176.52	116.35	150.93	177.13	-4.2	2.91	187.69	176.66	116.38	150.97	177.64	195.20	178.34	179.55
The World Index (2224)	174.62	4.5	164.99	108.75	141.07	147.12	-1.8	2.30	175.49	165.26	108.87	141.23	147.57	180.80	158.65	166.88

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 184.07 (Pound Sterling) and 149.94 (Local). Constituent changes during the week ending 18/11/94: Addition: Renault (France). Name change: Crowns to Extendicare (Canada).

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Thanksgiving is unlikely to halt uncertainty



Source: FT Graphite

Many investors this week will spend their Thanksgiving holiday on Thursday grateful for a day not spent trying to come to terms with a volatile stock market. However, uncertainty is expected to continue over what is generally one of the slowest weeks of the year.

Last week saw hour-by-hour and day-by-day see-sawing as the market proved unable to sustain a rally or succumb entirely to the bears, a trend that could continue into next week. Over the past two-and-a-half months, the Dow Jones Industrial Average has rarely broken out of the 3800 range.

Some economists believe the market may stage its traditional year-end rally, as firms put bonuses and pension-fund contributions into the hands of employees. But even those bullish for the short-term are generally pessimistic about the next several months.

"We're in kind of a seasonally strong time of year, which could lead to a short-term rally phase, but if that happens it will only postpone weakness down the road," says Mr Richard McCabe at Merrill Lynch.

Also contributing to last week's market gyrations was the Fed's decision to increase the fed funds target rate by a larger-than-expected 75 basis points to 5½ per cent. The move left both the stock and bond markets unsettled because the door is open to another rate increase later this year or early in 1995.

Even figures showing inflation to be in check for the moment have done nothing to calm fears of inflation down the road. At every turn both the stock and bond markets have seen only the worst in generally positive numbers. For example, presented last week with news of a decline in the Philadelphia Federal Reserve Bank's index of business activity, the markets drew pessimism from a sub-index that showed an increase in prices paid by manufacturers.

While a strong economy is generally good for the equity market, stocks have taken their cues from bonds recently as company profits suffer when interest rates rise.

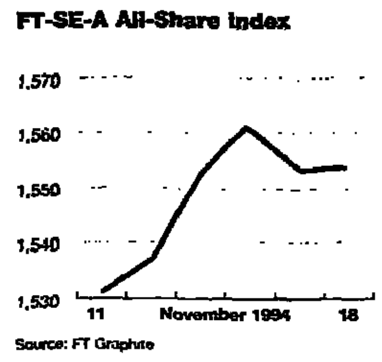
What does the Fed's move mean for this week's markets? "We're one week closer to the next tightening," Mr Thomas McManus at Morgan Stanley, responds dryly. He joins a host of Wall Street economists who are predicting another interest rate increase in the short-term.

Mr McManus advises avoiding the stock market until there is a significant decline. He believes some investors have neglected the fact that higher interest rates may draw some investments away from stocks and into the fixed income market.

Rising interest rates will hurt equities by deterring corporate borrowing and put pressure on earnings.

LONDON — Steve Thompson

Soft landing back in vogue after rate rise



Source: FT Graphite

Soft landing and hard landing were two of the most common phrases during the late 1980s as fund managers pondered the impact on the economy of the series of interest rate rises implemented to cool an overheating UK economy.

In the event there was no soft or hard landing, more a crash landing. Now the phrase soft landing is making a comeback as the market tries to assess the likely impact of last week's move by the US Federal Reserve to raise US interest rates by 75 basis points, the sixth time the Fed has lifted its rates since February.

US and European markets gave a muted response to the Fed's action but in London both gilt-edged stocks and equities built on a strong start to the week and fairly galloped ahead. As they did so another buzz word, which pops up regularly made a re-appearance. The magic word is decoupling and it was one of positive arguments still being put forward about the UK equity market.

The UK is said to be lagging the US in terms of the interest rate cycle and the next moves in UK rates are perceived as upwards as the Chancellor of the Exchequer and the governor of the Bank of England demonstrate their determination to keep an iron grip on inflation.

But there is no talk of a hard landing here. Most of last week's news confirmed manageable trends in the economy; underlying inflation still at its lowest level for about 27 years, wage costs under control and no evidence of an upturn in consumer spending. The economy's ability to shock came with news that UK gross domestic product expanded rapidly during the third quarter.

Nevertheless, the UK equity market is still transmitting some bullish signals. Turnover, stuck in the doldrums over the past couple of months, has suddenly quickened, helped by a handful of one-off deals such as the Boots buy-back, and the Guinness stake sale.

According to Derivative Securities' Technical Review, the reaction of the US bond market to the Fed's action on interest rates "has shown some independence of spirit. This has to be good for UK equties".

In Behind the Balance Sheet, the latest strategy document on funds flow and debt risk from Credit Lyonnais Laing, the securities house describes UK plc as "in fine fettle" and highlights record cash inflows, gearing at long-term lows and interest cover at a high level.

The broker forecasts trading cash inflows of $5.5bn and asks the question "what will UK plc do with the money?" CLL says some will go on share buy-backs, special dividends and still higher levels of capital expenditure and adds: "The prospect of an acquisition boom remains an obvious use."

International offerings

US influence in Europe's new issue business grows

The German government is poised to announce which bank is to lead worldwide sales of Deutsche Telekom shares when the company's DM10bn-plus capital raising exercise goes ahead in 1996.

Deutsche Bank and Dresner Bank seem assured of a role in the sale, but if – as is widely expected – a US bank is awarded the role of "global co-ordinator" it will confirm European fears that the Continent's banks are losing out to US rivals in business stemming from the wave of new European equity issues.

Goldman Sachs has this year been "book-runner" in five separate European deals and after selling eight tranches of shares worth a total of about $2.5bn sits at the top of a league table of European issues, compiled by IFR Securities. Deals include INA, the Italian insurer and – with UBS – Tele Danmark, the Danish telecommunications group.

Other US banks are also prominent in the table. Lehman Brothers, for example, was book-runner in the sale of Banca Commerciale Italiana, the Italian bank.

Morgan Stanley – with CSFB and Warburg – shared a similar role in the sales of KPN, the Dutch telecoms company, and (with CSFB, Warburg and Goldman) led the sale of Endesa, the Spanish energy holding company. Merrill Lynch has led sizeable equity issues for a number of Scandinavian companies, and is global co-ordinator for the sale of Enel, the Italian energy company.

European banks continue to be strong in their domestic markets. The French banks have won chunky deals in France (Paribas heading sales of Elf Aquitaine and UAP, BNP leading on Renault).

On the Continent as a whole US influence seems to be growing. Goldman's market share of European deals has doubled since 1993.

Bankers say that in some earlier privatisations UK banks have been asked to advise the government and a US bank to lead the sales effort. But that, too, could be changing. Morgan Stanley, for example, will advise the Italian government on the sale of Stet, the telecommunications concern.

European bankers say governments have been too easily impressed by US bankers' claims they can more easily access US investors, especially at the retail level.

They also suggest that Europe has been the important source of demand for sales of European equities, with London-based fund managers making many of the important decisions.

Against that, US banks claim their success reflects recent investment in training, research and sales.

"US banks are covering the sectors on a global basis. If you look at investment the US banks have put in place in past five years it is is multiples of what any European bank has done. That is not lost in the eyes of a government," says one US bank executive.

US bankers also argue that they are more familiar than their European counterparts with book-building, a technique for distributing shares which has long been common in the US but relatively new in Europe and being eagerly embraced by governments embarked on privatisation.

One European banker says that US banks promise "the earth" and then "try to manage expectations after they have won the mandate".

Nevertheless, he says US success is principally a product of better research and a more tightly focused approach.

"They also have a relentless focus on the transactions they want. They have nailed down every individual in the decision-making process for a long time," he said.

Richard Lapper and Martin Brice

OTHER MARKETS

ZURICH

Tomorrow brings the long awaited showdown between the directors of Union Bank of Switzerland, the country's largest bank, and the maverick Zurich broker-fund manager Martin Ebner, *writes Ian Rodger*.

A UBS extraordinary general meeting of shareholders starts at 2:30 pm in Zurich to consider the board's scheme to strip the registered shares, which have a par value one fifth of that on the bearers, of their extra voting power. The stated aim is to undermine Mr Ebner's challenge of their governance of the bank.

BK Vision, an Ebner controlled investment fund which holds 18 per cent of the registered shares, has been trying to rally a majority of votes to force substantial changes to the UBS board and business strategy at the next annual meeting in April.

The board's proposal calls for exchanging all existing shares into a new class of bearer shares with a par value of SFr10. The existing bearers would be exchanged at the rate of 10 for one, the registered at the rate of two for one.

Uncertainty about the outcome, reflected in highly volatile trading of both classes of shares since the EGM was announced on September 29, is heightened by the fact that a two-thirds majority of shares represented at the meeting is needed to carry the motion.

Both UBS chief executive Mr Robert Studer and Mr Ebner say they are confident of winning. Asked privately if they would admit it if they thought they would lose, both replied with a straight face, "yes".

● Wednesday brings 10-month sales figures from Nestlé, whose shares have picked up in recent sessions after a period in the doldrums. Currency considerations remain paramount. The strength of the Swiss franc depressed first-half figures by about 6½ per cent, and analysts say that it is likely to depress the 10-month outcome by about 8 per cent.

FRANKFURT

The Bundesbank Council meets on Thursday but, says James Capel, what little news that has come out since the last meeting is unlikely to prompt any move in rates.

The German chemicals companies, reporting this week and next, will conclude the European interim results season. Figures come from BASF on Thursday, followed by Bayer on November 28 and Hoechst on November 30. Hoare Govett says that after a strong set of figures from ICI, DSM, Akzo Nobel and Rhône-Poulenc, it expects a sound improvement in pre-tax profit from the Germans, although reported figures may be tempered by managements' reluctance to reveal the extent of the recovery with wage negotiations pending. The broker adds that BASF and Hoechst will show the strongest improvement from last year's very depressed profits.

Commerzbank is expected to start the banks' 10-month reporting season on Wednesday. Merrill Lynch expects operating profits to improve slightly over the first half of the year, but warns that core income may be weakening. The investment bank says the banks appear undervalued in the context of the German market, but fair value in international terms. It also points out that the banks tend to outperform a falling equity market but underperform a rising one.

Deutsche Telekom, the state-owned group, is expected today to name the banking consortium that will handle its privatisation, the largest in Germany's post-war history, at the start of 1996.

NORWAY

A thin week is in prospect as the market squares up for Sunday's EU referendum. Investors will be watching for any weakening in the position of opponents of membership, who have the upper hand which would, most likely, provide a fillip for the market.

HONG KONG

The removal of one uncertainty on Friday afternoon, when local banks lifted interest rates by 0.75 per cent, will do little to cheer or inspire investors this week, *writes Louise Lucas*.

The banks had been widely expected to raise rates following the US Fed's move last Tuesday and concern over follow-through in Hong Kong drove the colony's share prices lower in the latter part of last week.

The hesitant mood is likely to continue into this week on fears of a further interest rate rise. US trade data tomorrow will be keenly scrutinised in Hong Kong, as any inflationary signals will once again be sufficient to spook bond and stock markets. In the absence of corporate news, local issues this week are likely to be dominated by rumour.

TOKYO

While the interim results season peaked last week, companies including Nintendo, the banks, and electric power utilities are scheduled to announce their first-half profits this week.

Activity on the overall market is expected to remain sluggish, exacerbated by the national holiday on Wednesday.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / John Pitt

Looking for a year-end finale

The world's emerging markets largely discounted last week's action by the US Federal Reserve as thoughts remained focused on whether there will be a final rally to end the year.

The markets have managed to recoup almost all of the losses triggered by the Fed's first rate rise of 1994 back in February, with the IFC's composite index having virtually returned to its January starting point.

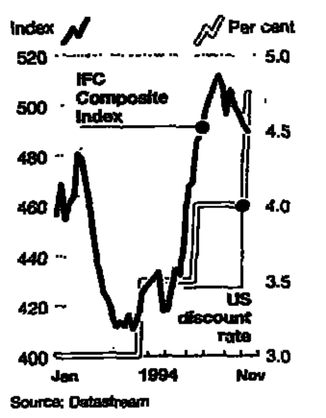
However, the performance has not been even: Latin America has far outstripped Asia, while Europe's emerging markets – which include Turkey and Poland, two of the disappointments of 1994 – remain caught in a downward trend.

While the prospect of a further tightening by the US Fed remains, and forecasts vary between the end of the year or early in 1995, fund managers and strategists take a more measured long-term view. Indeed, with so much capital now tied up in emerging markets, especially from US pension funds, a sudden change of strategy is highly improbable.

According to Mr Michael Howell of Baring Securities, in a speech delivered in Tokyo during the summer, international money managers allocated more new money throughout 1993 to the emerging stock markets than they did to North America and Japan combined. While the flow of funds has slowed somewhat during 1994, the annual inflow of new money is forecast to be between $40bn and $50bn, against some $63bn the year before.

US monetary policy has been the main factor determining investment attitudes towards emerging markets throughout this year. Consequently Mr John Legat, senior emerging markets portfolio manager of GT Unit Managers in London, has been pursuing a policy of diversifying away from the dollar bloc markets, which includes most of south east Asia, and concentrating on markets in India, Africa, eastern Europe, Turkey and Brazil.

However, each time the US Fed had lifted rates he has been buying back the dollar bloc markets on expectations that long bond yields would start to fall – good news for financial markets in general.



Source: Datastream

Mr Jean de Bolle, of Foreign and Colonial Emerging Markets, comments that he does not believe the US long bond has yet peaked, something that is unlikely to occur before the second quarter 1995, he thinks.

For this reason he is looking to invest in smaller emerging markets during 1995: countries such as Peru for instance. He is also keen on Turkey, in spite of its lacklustre showing this year, and Brazil, which, he believes, has great potential over the next 12 months.

Turkey has aptly demonstrated the volatility that can so often characterise the short-term performance of emerging markets. Following a gain of some 200 per cent in dollar terms in 1993, the financial markets came under a wave of selling as its foreign debt rating was downgraded in mid-January and the Turkish lira collapsed against the dollar. Inflation then rose into triple digit figures for the first time in 14 years, hitting an annual rate of 117 per cent in May.

The market made a partial recovery during the summer, as the government introduced an austerity package, but by the end of last week it was still down nearly 40 per cent in dollar terms on the year to date.

Looking ahead Mr Sushil Wadhwani, a Goldman Sachs strategist based in London, believes Asian markets in general offer good potential over the long term, and appear an even more attractive proposition than Latin America, even if the US Fed acts more decisively next time round.

Mr Mark Mobius of Templeton Worldwide, which has some $7.2bn invested in emerging markets funds, believes that prospects for the next six months remain generally good. "However, while a number of markets have moved up substantially and have recovered from the decline in the early part of the year, many are overpriced," he says.

Ten best performing stocks

Stock	Country	Friday 18/11/94	Week on week change $	Week on week change %
Eczacibasi Ilac	Turkey	0.1300	0.0287	28.27
Goodyear Tyres	Turkey	0.5063	0.0681	15.53
CSN	Brazil	0.0484	0.0046	10.55
Peru-Pacifico	Peru	1.0172	0.0823	8.80
Pacifico Peruano Suiza	Peru	32.9897	2.5131	8.25
Leader Universal Holdings	Malaysia	5.5729	0.4106	7.95
Investimentos Itau (Pfd)	Brazil	0.7177	0.0490	7.33
Cukurova Elektrik	Turkey	0.2381	0.0162	7.32
Cukurova Elektrik	Turkey	0.2025	0.0135	7.16
Telsep (Pfd)	Brazil	0.5203	0.0308	6.29

Source: Baring Securities

Investing in eastern Europe

The surge of financial investment into the former communist bloc is continuing with the decision by Invesco, the fund manager, to raise an extra $75m for its East Europe Development Fund, *writes Nicholas Denton*.

The new injection will take the money raised by EEDF since its foundation in 1990 to $115m and will lift the resources of funds focused on the region close to $1bn.

EEDF's net asset value will rise to about $170m, propelling it into the top two of emerging market funds specialising in eastern Europe, nearly matching CS First Boston's Central European Growth Fund.

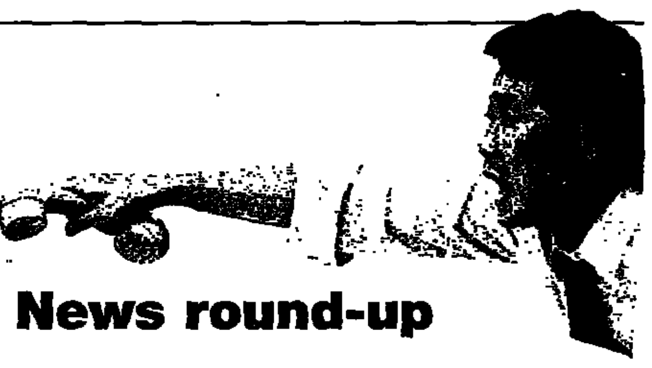
The Baring group, which is issuing and placing the new shares, is marketing EEDF as the best performing regional institutional investor. Micropol, the fund measurement company, has named EEDF as the best performer in its group over one and three years.

An early move into the booming Polish market helped EEDF's net asset value double between September 1993 and March 1994 and the fund has held on to most of the gains.

More recently launched funds like Baring Emerging Europe Trust and Central European Growth Fund invested into markets that were coming off their peaks. Their short-term performance has inevitably been mixed.

Specialised emerging markets funds have been more active than pension funds in eastern Europe and especially the former Soviet Union. Stock markets in the region are immature and the regional funds have been more willing to make unquoted investments. But even venturesome investors like the regional funds have been deterred by insecure custody and settlement in Russia.

Fund managers say it is the largest single deterrent to financial investment in eastern Europe's largest market.



News round-up

■ Jakarta

The Indonesian stock market is forecast to rally in 1995, according to PT Standard Chartered Indonesia, *agencies report*.

"The market will continue to strengthen and we expect total upside of 20 per cent over the next 12 months, on the back of what we expect will be the strongest earnings growth rate among the Asean markets," the brokerage said.

Standard Chartered added that it was expecting strong 1994 corporate earnings growth of about 24 per cent.

■ Tanzania

Delegates from donor agencies, Tanzania's government and private business met earlier this month to discuss regulations for forming a stock exchange and capital markets.

Participants included officials from the World Bank and the International Finance Corporation.

The country's parliament enacted a capital markets law early this year which allowed for the formation of a stock exchange. Since then, the Bank of Tanzania has been trying to find a framework for setting up a stock exchange.

■ Casablanca

Morocco's stock market forecasts a record turnover of more than $1bn by the end of the year, an official of the country's bourse said. This will nearly double the 1993 turnover figure.

Foreign investment accounted for more than 70 per cent of bourse activity.

Morocco plans to privatise 112 companies by the end of 1995.

■ Istanbul

The Istanbul stock exchange withdrew from the manual board system, in use since November 1987, to prepare for full automation of all 174 stocks today.

■ Seoul

South Korea approved foreign investment worth $1.16bn in the first 10 months of the year, a 44.8 per cent rise on the same period of last year, according to data from the finance ministry.

Japan topped the foreign investment list with $361m during the period, followed by $356m from EU countries. Investment by the US, however, fell 6.3 per cent to $282m.

New foreign investment was $588m, while the remaining $573m comprised additional investment by existing foreign companies in South Korea.

■ Lima

Foreign investment on the Lima stock exchange rose by 47.7 per cent to $1.67bn in October compared with $1.13bn in the previous month.

Most of the investment came from the US, followed by the UK, Chile and Luxembourg.

According to data from the stock exchange authorities, foreign investors preferred to buy shares in Compania Peruana de Telefonos, Banco de Credito, Backus y Johnston and Southern Peru Copper Corp and Buenaventura.

Equity prices on the bolsa rose by an average 8.7 per cent in the same period.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page*

Baring Securities emerging markets indices

Index	18/11/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (301)	177.24	-3.00	-1.67	-9.97	-5.53	+8.83	+5.24
Latin America							
Argentina (20)	97.94	-5.88	-5.66	-12.88	-11.62	-17.44	-15.11
Brazil (21)	233.80	-6.33	-2.63	+4.74	+2.07	+94.15	+67.42
Chile (12)	222.27	-2.96	-1.31	-6.70	-2.93	+74.73	+50.85
Mexico (25)	135.85	-1.67	-1.21	-19.62	-12.62	-25.42	-15.65
Peru(16)	902.98	-49.33	-5.18	-36.44	-3.88	+326.89	+56.74
Latin America (94)	166.27	-4.03	-2.37	-10.93	-6.17	+17.03	+11.41
Europe							
Greece (16)	81.80	-1.14	-1.38	-4.13	-4.80	-1.29	-1.55
Portugal (18)	120.81	-2.43	-1.97	-1.78	-1.45	+8.68	+7.74
Turkey (21)	81.96	+0.26	+0.32	-0.57	-0.69	-79.76	-49.32
Europe (55)	99.23	-1.44	-1.43	-2.33	-2.29	-13.00	-11.59
Asia							
Indonesia (26)	148.05	-1.95	-1.30	-7.58	-4.87	-22.99	-13.44
Korea (23)	160.65	-3.58	-2.18	-5.13	-3.09	+50.95	+46.44
Malaysia (23)	225.53	+2.87	+1.29	-12.37	-5.20	-27.52	-10.87
Pakistan (11)	108.16	-1.88	-1.71	-9.11	-7.77	-3.53	-3.16
Phillippines (12)	293.50	-4.28	-1.44	-9.15	-3.02	-28.97	-8.98
Thailand (25)	267.37	-2.46	-0.91	-7.47	-2.72	+3.81	+1.45
Taiwan (32)	164.64	-4.74	-2.80	-11.77	-6.67	+10.94	+7.12
Asia (152)	219.49	-1.56	-0.71	-10.31	-4.49	-1.92	-0.87

All indices in $ terms. January 7th 1992=100. Source: Baring Securities

CURRENCIES

Markets offered Thanksgiving breather

Foreign exchange markets face a fairly quiet week, with the US enjoying only two full trading days owing to the Thanksgiving break.

This follows a week in which a deluge of data, combined with a monetary tightening from the Fed, failed to generate any significant movement in the dollar.

This week the main policy event will be the Bundesbank council meeting on Thursday. For some time now the German central bank has been scrupulous in its efforts not to give markets a hint on the likely future direction of interest rates. That said, few observers are expecting an imminent rise in rates. A maintenance of the status quo – the discount rate at 4.5 per cent, and the repo rate at 4.85 per cent – seems the most likely outcome.

The background to the council meeting will be provided by M3 money supply, and consumer price inflation figures. The lack of data will not stop the market from pursuing its current preoccupation; namely, whether the dollar is now in a bull-phase, or merely seeing a retracement within an ongoing bear phase.

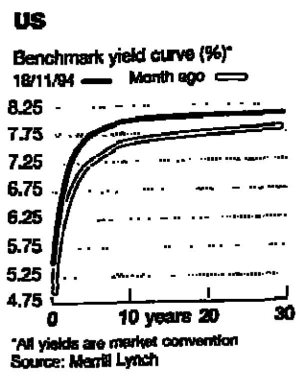
The dollar's response to the 75 basis point rise in short term rates was strangely subdued. The dollar finished in London on Friday around DM1.5550 and Y98.60, almost exactly the levels at which it stood half an hour after the Fed announced higher rates.

Mr Steve Hannah, head of research at IBJ International in London, commented: "The dollar has made useful headway in recent weeks. But the move has simply broken the downtrend – it is premature to say that a new bull market is in place."

A survey conducted on November 17 by IDEA, the financial analysis group, illustrates that the market remains very unsure about the outlook for the dollar. Asked to forecast two months ahead, respondents predicted median values for the dollar of DM1.57 and Y99. Forecasts ranged, however, from DM1.44 to DM1.6425, and Y92.50 to Y105.

WORLD BOND MARKETS: This Week

NEW YORK — Tony Jackson



Even though last week's rise in the discount rate was sharper than expected, the bond market is by no means sure the Fed has finished yet.

The economy remains rather too strong for comfort, particularly in terms of consumer spending and retail sales.

In spite of the aggressive nature of its move, the Fed pointedly made no comment on plans, and long bond yields actually rose slightly.

The next FOMC meeting is not until December 20, so no further action is expected at least until then.

In the meantime, however, the market has found something else to worry about: the risk that the Republicans, rampant after their election victory, will cut taxes ahead of their ability to control spending.

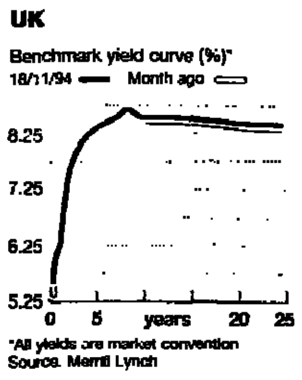
However, this should be a quiet week, with the Thanksgiving holiday on Thursday.

Tuesday brings the Federal budget figure for October, expected to show a deficit in the $33bn-$35bn range.

On Wednesday come durable goods orders, where continued growth in civilian spending should be mostly offset by continued cutbacks in defence, resulting in growth of about 1 per cent or a little above.

October figures for sales of existing homes, due on Friday, will be looked at for evidence that rising mortgage rates are finally taking effect.

LONDON — Gillian Tett



Traditional pre-Budget speculation is likely to shape sentiment on the gilts market, which was strengthened last week by positive UK economic data. Nevertheless, gilts continue to be buffeted by international trends, particularly following last week's US interest rate rise.

With next week's Budget likely to reduce substantially the public sector borrowing requirement, gilts are expected to perform well over the coming weeks. A survey last week indicated that City economists now expect the PSBR to fall to £32bn this financial year, and £23bn next year.

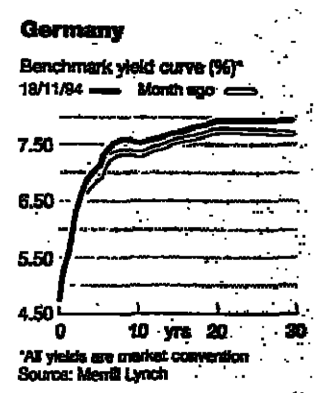
Speculation is mounting that the Budget might introduce an open repo market which would make the market more liquid and take the kink out of the yield curve that has made longer dates yields lower than those at the medium term.

In the meantime, last week's economic data, which suggested that UK inflationary pressures remained subdued, is expected to strengthen the market.

Mr Nigel Richardson, of Yamaichi International said: "We go into the budget with a relatively favourable tone to the market - the background to gilts is good on an international basis."

As Merrill Lynch points out, the spread between UK-US yields has narrowed recently, and its economists predict that it could narrow further.

FRANKFURT — Andrew Fisher



After watching to see how far US short-term rates would rise last week, the German bond market will have its attention more sharply focused on domestic matters in the next few days.

The rates of money supply growth in October and inflation in November are expected to show a slight improvement when announced this week.

M3 should ease to an annualised growth rate of just above 7 per cent, with yearly west German inflation likely to slip to 2.7 per cent.

However, this does not mean Thursday's Bundesbank council meeting is likely to decide on a small cut in key interest rates before raising them again in 1995.

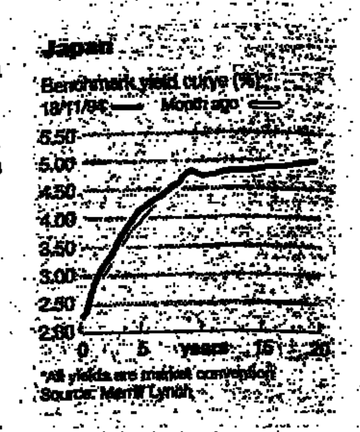
The Bundesbank, as Mr Hans Tietmeyer, its president, said on Friday, wants more progress by the government towards solving its fiscal problems and more moderate wage rises to squash inflation.

The 75 basis point rise in the US federal funds target did not help the case of those looking for one last German rate cut.

Nor has the criticism by the government's council of economic advisers (five wise men) of the Bundesbank's pragmatic monetary policy.

Its latest report said there was no scope for more interest rate cuts in 1995; slight increases would probably be necessary.

TOKYO — Emiko Terazono



Weakness in the Tokyo stock market is expected to underpin the bond market this week. Profit-taking by overseas fund managers before the year-end settlements is depressing share prices while stock buying has so far been limited to public funds.

With an increasing number of analysts expecting the Nikkei 225 index to breach the psychologically important support level of 19,000, long-term interest rates are expected to see underlying support.

The bond market may see a brief rally as a result of increased trading from the new securities house subsidiaries of the commercial banks which start operating on Thursday.

Meanwhile, there has been an increase in straight bond issues with longer maturities and an easier yield curve at the longer end is prompting companies to turn to debt with maturities of over five years.

Until recently they preferred to issue bonds with maturities of less than five years because long-term yields were expected to decline and to attract retail investors.

Although companies may revert to short-term debt to attract retail investors ahead of the winter bonus season, a rise in demand for long-term bonds with higher coupons among institutional investors is likely to support the case for a continued increase in long-term debt.

Capital & Credit

Confidence returns to the gilts sector

The UK government bond, or gilt, market is in a confident mood. It swept aside last week's figures showing accelerating UK economic growth and rallied in the face of Tuesday's three-quarter point rise in US short-term interest rates.

It may soon face more serious tests of its new-found confidence, however – a turn upwards in UK inflation and the next rise in UK base rates.

It is no secret that this has been a difficult year for gilts. Fears that economic recovery in the US and Europe would be inflationary and lead to sharply higher interest rates around the world have sent bond prices tumbling, and gilts have suffered particularly badly.

This was partly because the UK's economic recovery was further advanced than that of its fellow European countries and partly because of the UK authorities' poor track record in controlling inflation. The large size of the UK government budget deficit, and the enormous amount of new gilt issuance this implied, also weighed heavily on investors' minds.

The price of 10-year gilts fell by more than 19 per cent from their highs in January and yields climbed by almost 3 percentage points to a peak of around 9 per cent in September.

Since then, however, there have been encouraging signs of a recovery in gilts, at least in relation to other countries' bond markets.

Yields have dropped back only slightly, to around 8.6 per cent. But the yield spread between US and UK 10-year government bonds, having widened to more than 150 basis points in the summer, has now narrowed to about 60 basis points.

The reason for this is continued good news on inflation. In spite of economic growth of over 4 per cent, inflation – at 2 per cent – remains at a 27-year low.

The financial markets, suspicious all year of the government's willingness and ability to keep a tight reign on price rises, are starting to believe, albeit grudgingly, that maybe it can and will. The fall in yields is reflecting this.

"Gilts have rallied in recent months as expectations about inflation have slowly improved," said Mr Gerard Lyons, chief economist at investment bank DKB International. "Investors are now becoming more willing to commit money to the gilts market."

Mr Lyons believes there is now an asymmetrical relationship developing between the US and UK government bond markets.

"It will be difficult for gilts to put on further gains in isolation from other markets, particularly the US," he said.

"If Treasuries rally then gilts will be pulled up with them, but if Treasuries fall then gilts will be supported by the UK's favourable domestic conditions."

Those domestic conditions – the strength of the UK recovery, inflation and interest rates – remain the key to how the gilt market performs over remaining weeks of 1994 and into next year.

"The question that has to be answered is whether this recovery is any different from previous ones, in which renewed growth has triggered inflation, higher interest rates and balance of payments problems," said Mr Lyons.

Although inflation remains subdued, there are signs that inflationary pressures are building up in the economy.

Mr David Miles, senior UK economist at the US investment bank Merrill Lynch, calculates that spare capacity in the economy is dwindling rapidly.

"If the economy continues to expand at its current rate, it will start to overheat and be heading towards inflationary territory by the end of next year," he said.

He points to the rise in producer input prices as a sign of future inflation.

Rising commodity prices have pushed up costs to many manufacturers, yet producers have not passed these rises on into output prices, thus squeezing their profits.

"Companies may try to to recoup that squeeze in profits by raising prices over the coming year," said Mr Miles.

Wage settlements, currently rising at about 3¾ per cent a year, may also start to accelerate as unemployment continues to fall, putting further upward pressure on costs and prices.

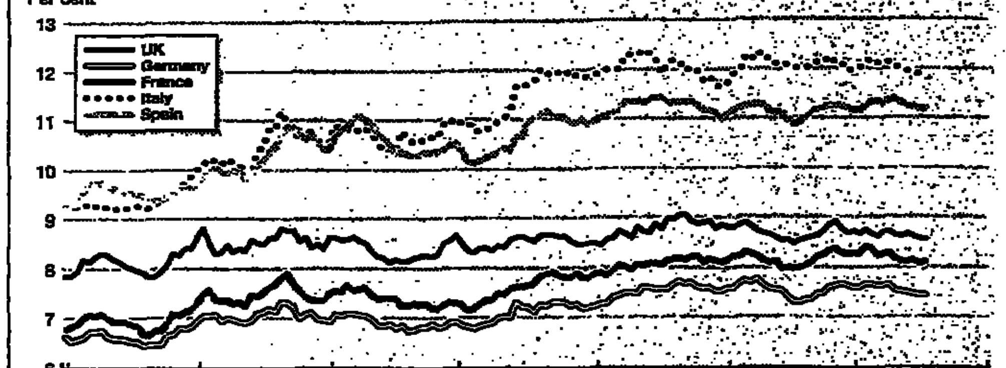
All this points to a rise in UK interest rates. The consensus among City analysts seems to be that it will come early next year. However, when it does it may not be bad for gilts – certainly the last rate rise, in September, was generally enthusiastically received as a well-timed move to head off future inflation.

In the meantime, the gilt market has something else to occupy its attention – next week's Budget on November 29.

Mr Kenneth Clarke, the Chancellor of the Exchequer, is expected to reaffirm the improving state of the nation's finances and cut his forecast for next year's public sector borrowing requirement. This would be yet another lift to the gilt market's confidence.

Graham Bowley

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.75	1.75	4.50	6.40[1]	7.50	5.75[2]
Overnight	4.38	2.22	4.88	5.28	7.87	4.75
Three month	5.48	2.31	5.08	5.46	8.50	5.93
One year	6.65	2.75	5.52	6.22	9.72	7.12
Five year	7.79	4.08	7.09	7.78	11.96	8.36
Ten year	8.02	4.74	7.59	8.19	12.02	8.54

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	96-24	96-25	+0-02	96-31	96-13	550,582	404,465
Mar	96-06	96-08	+0-02	96-12	95-26	11,488	59,366
Jun	95-23	95-20	+0-02	95-27	95-09	187	11,963

International

Eyes now turning to Latin America

Latin American debt has been among the worst casualties in this year's bond market meltdown. However, most observers say the sell-off has been overdone and recommend buying around current levels.

"We believe these markets are now very cheap," says Ms Ingrid Iversen, senior economist at Morgan Grenfell. "The fall has been overdone by whatever measures you apply," she says. A recent study by Morgan Grenfell states that "current Brady bond prices discount default risk at a rate which verges on the paranoid".

Latin bonds have been battered by rising US interest rates, heavy selling early in the year by leveraged accounts and a variety of domestic problems. As a result, the average stripped yield spread of the four largest Latin markets over US Treasuries has more than doubled to some 950 basis points, from 450 basis points at the beginning of the year.

In Brazil, uncertainty ahead of the October elections overhung the market most of the year. However, bonds derived support from the implementation in July of the Real Plan and the election of Fernando Henrique Cardoso, enabling them to outperform all neighbouring markets. According to J.P. Morgan, Brazilian Brady bonds have posted a total return of some 6.5 per cent in the year to date.

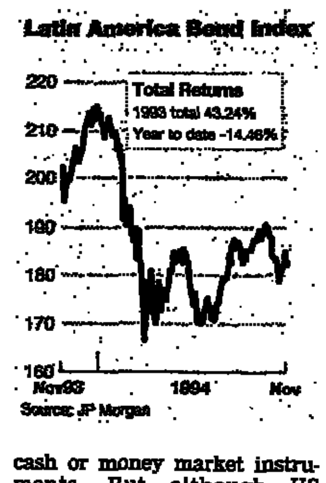
Mexico, too, was dogged by political worries ahead of the August election, exacerbated by the assassination of President-elect Donaldo Luis Colosio in March. Mexico was the region's second-best performer, although total returns there are down 11.5 per cent in the year to date.

Argentina suffered from concern over its fiscal position and jitters ahead of elections in May. Although President Carlos Saul Menem is expected to be re-elected, "people have been rattled by politics this year and are shy of countries with political uncertainty", says Mr Patrick Beeley, who runs the emerging markets bond sales desk at J.P. Morgan in London. Argentine bonds are down 21.61 per cent so far this year.

Venezuela, meanwhile, has been the worst hit, posting a negative return of 32 per cent amid growing investor scepticism of the populist Caldera government.

After getting badly burnt in the initial February sell-off, many investors moved into cash or money market instruments. But although US mutual funds withdrew billions of dollars from bond markets, few accounts have pulled out for good, and observers say there are large pools of cash waiting to get back into bonds.

Latin America Bond Index



Source: JP Morgan

Moreover, new Latin American investors, such as Argentine and Brazilian pension funds, are expected to move in next year, says Ms Susan Segal, head of emerging and capital markets at Chemical Bank in New York.

And even among US investors, many of whom have sought safety in equities this year, "we are beginning to see more professional money reweighting back to the bond side", she says.

"We think people will get off the fence soon, and expect to see a significant pick-up in activity in December," agrees Mr Jonathan Prior, head of emerging market debt trading at ING Bank.

Brazil remains a favourite, especially after last week's state governor elections which gave President Cardoso the support he needs to implement his reforms.

Some analysts are also bullish on Mexico in the hope that its credit rating will be raised to investment grade in 1995. Argentina is seen supported by solid long-term fundamentals. And Venezuela – given that most people believe it will continue to service its debt – "is a screaming buy", says Ms Segal.

In spite of their supportive fundamentals, Latin bonds remain inextricably linked to US Treasuries, whose erratic trading pattern they track slavishly. But "while the opposing forces of weak US Treasuries and strong regional fundamentals will persist, I feel the latter will prevail sooner rather than later," predicts Mr Beeley.

Conner Middelmann

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
European Investment Bank	200	Dec.1998	7.75	99.95R	7.765	+70)	ABN Amro Bank
SMM & Co, Tranche 1‡	47	Nov.1996	(b1,l)	100.00	-	-	JP Morgan Securities
SMM & Co, Neths, Tranche 1‡	122	Nov.1996	(b1,l)	100.00	-	-	JP Morgan Securities
Sampo Corp.(c)§	50	Nov.2001	2.625	100.00	-	-	Jardine Fleming
HRHELT 1994-2, A1(d)★‡	587.3	Sep.2014	(d1)	100.00	-	-	Lehman Brothers Intl.
HRHELT 1994-2, A2(d)★‡	100	Sep.2014	(d2)	100.00	-	-	Lehman Brothers Intl.
Hellenic Republic	500	Nov.1999	9.75#	99.91R	9.773	+198(WI 5yr)	CSFB/Salomon Brothers
Ontario Hydro	350	Dec.1997	7.75	99.755R	7.845	+30(7¾%-97)	CS First Boston
Landwirt. Rentenbank	250	Dec.1997	7.625	99.85R	7.683	+15(7¾%-97)	Nomura/ Sakura Fin.
Banco Itamarati	75	Nov.1997	11⅝#	99.91R	11.68	+425(7¾%-97)	Chase Investment Bank
Central Termica Guemes(e)	65	Nov.1996	12.00#	100.00R	12.00	+487½(8⅞-96)	Merrill Lynch Intl.
CIII Investments	50	Nov.1995	9.625#	100.83	8.740	+218(T-bill)	Citibank International
Bank of South Australia(f)‡	50	Nov.1999	(f1)	99.785	-	-	JP Morgan Securities
KfW Intl. Finance, Delaware	500	Nov.2004	8.25	98.908R	8.418	+27(7¾%-04)	Dresdner/ Goldman
Baden-Württemberg L-Finance	400	Dec.1999	8.00	99.57R	8.108	+20(WI 5yr)	JP Morgan Securities
Euro Credit Cards	350	Dec.1997	7.875	99.892R	7.917	+32(7¾%-97)	Citibank International
Electric Power Dev'ment Co.	300	Dec.1999	8.125	99.944R	8.139	+23(WI 5yr)	IBJ Intl./ JP Morgan
Banco do Brasil, Gd Cayman	100	Dec.1997	10.25#	99.7728R	10.34	+290(7¾%-97)	Chemical Inv. Bank
Unilever	200	Dec.1999	8.00	99.59R	8.103	+15 (WI 5yr)	Deutsche Bk./ UBS
Ambroveneto Intl. Bk.‡	150	Dec.2004	(m)	99.47R	-	-	Morgan Stanley Intl.
Banco Nacional	100	May.1998	10.50#	97.461	11.40	-	Citibank
YEN							
IMI Finance★	30bn	Dec.1999	4.50	99.95R	4.511	+23(4.9%-99)	Merrill Lynch Intl.
Daiwa Intl. Finance(a)★	10bn	Mar.2005	5.00	100.00	-	-	Nomura International
Daiwa Intl. Finance(a,s)★	10bn	Mar.2005	(a1)	100.00	-	-	Nomura International
Swedish Export Credit★	15bn	Nov.1997	3.75	99.99	3.754	-	Nomura International
Landwirt. Rentenbank★	10bn	Dec.1998	zero	85.50	3.991	-	Norinchukin Intl.
Rabobank Nederland★	10bn	Dec.1998	zero	85.45	4.009	-	Norinchukin Intl.
Republic of Italy	125bn	Dec.1997	3.90	99.99R	3.904	+19.6(5%-97)	Daiwa/ Nomura Intl.
Republic of Italy	200bn	Dec.2004	5.00	99.54R	5.080	+29(4½%-04)	Daiwa Europe
Republic of Italy	125bn	Dec.2014	5.50	100.00R	5.500	+39(5%-14)	Daiwa/ Nomura Intl.
Daiwa Intl.Fin. Cayman(h,s)	10bn	Aug.2005	(h1)#	100.00	-	-	Salomon Brothers Intl.
Nomura Bank Intl Trch 1(n,s)	5bn	Feb.2000	(n)	100	-	-	Nomura Intl
Nomura Bank Intl Trch 4(s)	5.1bn	Mar.2000	(o)	100	-	-	Nomura Intl
STERLING							
IMI Bank Intl.(Cayman Is)‡	100	Dec.1999	(l)	99.575R	-	-	HSBC Markets
D-MARKS							
SMM & Co, Tranche 2‡	205	Nov.1996	(b2,l)	100.00	-	-	JP Morgan
SMM & Co, Neths, Tranche 2‡	280	Nov.1996	(b2,l)	100.00	-	-	JP Morgan
Asfinag	200	Dec.1999	7.125	99.697R	7.199	+17(6¼%-99)	Morgan Stanley
FRENCH FRANCS							
Merrill Lynch & Co.	1bn	Dec.1999	8.125	99.861R	8.160	+53(8⅛%-99)	Merrill Lynch Cap.Mkts.
ITALIAN LIRE							
Société Générale Acceptance	150bn	Dec.1996	10.75	101.16	10.06	-	Credito Italiano
CANADIAN DOLLARS							
Rabobank Nederland	125	Dec.2000	9.00	99.783R	9.048	+11(8½%-00)	Wood Gundy
GUILDERS							
Asfinag	300	Dec.2002	7.625	99.925R	7.638	+20(6¼%-02)	ABN Amro Bank
BNG	350	Dec.2000	7.50	99.53R	7.600	+21(9¼%-00)	ING Bank
ECUS							
Eurofima(g)	170	Dec.1999	8.125	99.885R	8.154	+5(5%-99)	BZW
European Community	95	Dec.2001	8.375	99.488R	8.475	-	BZW
AUSTRALIAN DOLLARS							
New Sth.Wales Treas.Corp.★	100	Nov.1997	4.50#	87.823	9.240	-	Nomura International
Queensland Treasury Corp.★	100	Nov.1997	4.50#	87.533	9.362	-	Nomura International
PESETAS							
European Investment Bank(k)	15bn	Nov.1998	10.90	101.25	10.48	-	BSN
SWISS FRANCS							
Südwestdeutsche Landesbank	150	Dec.1997	5.375	102.30	4.538	-	UBS
SMM & Co, Tranche 3‡	50	Nov.1996	(b2,l)	100.00	-	-	JP Morgan Suisse
SMM & Co, Neths, Tranche 3‡	250	Nov.1996	(b2,l)	100.00	-	-	JP Morgan Suisse
World Bank	200	Dec.2000	5.375	102.50	4.884	-	UBS
LUXEMBOURG FRANCS							
Republic of Portugal	2bn	Jan.2005	8.25	102.45	7.887	-	Kredietbank
Republic of Finland	2bn	Dec.2002	8.125	102.20	7.746	-	Kredietbank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Callable on 17/3/00 at par. a1) 5% to 17/3/00 and 5.3% thereafter. b1) 3-mth Libor +⅛%. b2) 9-mth Libor +15bp. c) Conv price: NT$35. FX: 26.27NT$/$. Callable after 3 yrs, subject to 140% hurdle, at accreted value. Puttable in 5 yrs at 137.37%. d) Household Revolving Home Equity Loan Trust. Expected average life: 3.8 yrs. d1) 1-mth Libor +23bp. d2) 30-days CP +26bp. e) Callable on 29/11/95 at par. f) Issue launched on 7/11/94 was increased to $300m. Callable on coupon dates after 2 yrs at par. f1) 3-mth Libor +35bp. g) Spread relates to French Govt Ecu BTAN's. h) Callable on 24/2/00 at par. h1) 5% to 24/2/00 and 5.15% thereafter. l) Over interpolated yield. l) 3-mth Libor +⅛%. k) Fungible with Pta20bn. Plus 30 days accrued. l) Long 1st coupon. m) Pays 3 month Libor +0.625% for years 1-5, thereafter pays 3 month Libor +1.5% n) 6 tranche issue. Coupon pays 4% until 24/2/1997, thereafter 5.2% Note: o) 6 tranche issue. Coupon pays 4% until 10/3/98, thereafter 6.1%. s) Short 1st coupon. Yields are calculated on ISMA basis.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Bemrose 4.7p
Chemical Bank FRN 1994 £63.89
Daiwa O'seas Fin. Gtd. Fltg/Fxd. Rate Nts. 2004 $2800.69
Finland (Rep of) 7¾% Bd. 1997 DM77.50
Finsbury Avenue Estates 11% 1st Mtg. Db. 2014 £5.243836
Glaxo 18p
Graham 1.75p
Hickson Int. 2.85p
Iceland 1.32p
Klearfold $0.01
MBE Fin. Tranche A Gtd. Dual Basis Bd. 2004 $29062.50
Do. Tranche B $28804.17
Medeva 1.1p
New City & Commercial Inv. Tst. 1.3p
NT & T 7¼% Nts. 1996 $72.50
P & O 7¼% Cv. Bd. 2003 £36.25
Quarto Grp. 2p
Renishaw 4.4p
S & U 3p
Suter 3.5p
Toyobo FRN 1999 Y67934.0
Treasury 12½% 2003/05 £6.25
Wells Fargo $1.0
Wensum 1.5p
Yokohama *(City of)* 8% *Gtd.* Bd. 2001 $400.0

■ TOMORROW
Abtrust High Inc. Tst. 1.4p
Badgerline 1.5p
Conversion 10¼% 1999 £5.125
Doeflex 1.6p
European Inv. Bank 10⅜% Ln. 2004 £259.375

Flash Ser. Zeta Secd. FRN 2000 Y680417.0
Mitsui Step-up Nts. 1997 Y750000.0
Sherwood 1.15p
TSB Offshore Inv. Ptg. Rd. Pf. *Blue Chip & Gilt Edged* 0.6995p
Do. European 0.079p
Do. Gilt & Fxd. Int. 1.406p
Do. Int. Bd. 4.57p
Do. Int. Equity 0.038p
Do. Sterling Dep. 1.08p
Do. UK Equity 2.05p
Treasury 2½% I.L. 1999 £2.1762
Treasury 14% 1998/2001 £7.0
Utd. Inds. 0.1p

■ WEDNESDAY NOVEMBER 23
Brent Int. 1.6p
Cardiff Auto Receivables (UK) No.3 Class A FRN 1998 £146.82
Do. Mezzanine FRN 1998 £170.14
Laporte 7.9p
Merrill Lynch $0.23
Sunderland (Borough of) 11¾% Rd. 2008 £5.875
Trafford Park Estates 2.2p
Trinidad & Tobago (Rep of) 12¼% Ln. 2009 £6.125
Watts Blake Bearne 3.9p

■ THURSDAY NOVEMBER 24
Abbeycrest 1.2p
Atlas Converting Equipment 7p
Bradford & Bingley Bldg. Scty. Sb. FRN 2005 £155.01
British Data Mngmt. 3.75p
CLS Hldgs. 0.4p
Clarkson (Horace) 0.75p
David Brown 2.25p
Denmark (Kingdom of) FRN 1998 £135.48
Development Sec. 0.08p
Domestic & General 18.5p
East Midlands Electricity 85p
Erith 0.75p
Grampian Hldgs. 1.7p
Ipeco 1.3p
Leeds Permanent Bldg. Scty. FRN 1997 £141.15
Northern Rock Bldg. Scty. FRN 1994 £143.36
Prudential 4.9p
Prudential Money Fds. Ptg. Rd. *Pf. Mngd US Dollar $0.2374*
Do. Mngd Sterling 2.86p
Do. Sterling Dep. 1.12p
Do. US Dollar Dep. $0.1362
Royal Bank of Canada C$0.29
VSEL 12p
Yule Catto 2.8p

■ FRIDAY NOVEMBER 25
Adwest 5.4p
Allied Irish Banks Und. Var. Rate Nts. $161.46
Alpha Airports 1.6p
Aluminum Co. of America $0.40
BTR 6.5p
Bradford & Bingley Bldg. Scty. FRN 1996 £142.41
British & American Film 4.8p
British Fittings 1p
British Polythene 4.5p
Brooks Service 0.75p
Cadbury Schweppes 4.6p
Capital & Regional Properties 0.6p
Delyn 0.5p
Eaton $0.30
FAI Insurances A$0.01
Fine Decor 2.7p
Fujita Inv. Gtd. FRN 1998 $1362.71
Galliford 0.5p
Gartmore Scotland Inv. Tst. 2.8p
Do. Units £7.0
Great Universal Stores 9p
Greenacre 0.16p
Haggas (John) 2p
Hampden 0.2p
Highlands & Lowlands M$0.04
Instem 1.4p
Irish Life IR0.11p
Kerry Grp. IR0.5p
Laing (John) 3p
Do. A N/Vtg 3p
Lilleshall 1.85p
Lloyds Eurofinance Gtd. FRN 1996 £70.12
Murray Int. Tst. 2.7p
Partco 2p
Proudfoot 2p
Ruberoid 1.8p
Sanwa Fin. Aruba Gtd. Sb. Perp. FRN Ser.3 $742.71
Sappi R0.30
Thornton Pan-European Inv. Tst. 0.3p
T & S Stores 2.6p
Treasury 6¼% 2010 £3.125

■ SATURDAY NOVEMBER 26
Forte 6¾% Sb. Cv. Bd. 2008 £33.75
Tay Homes 5.1p
Treasury 6¾% 2004 £3.375

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
London & Strathclyde Trust, Gartmore *House, 16-18 Monument Street, E.C.,* 2.30
BOARD MEETINGS:
Finals:
British Inv. Tst.
Diploma
Ferraris Grp.
Foreign & Colonial *Emerging Markets* Inv. Tst.
Unigroup
Interims:
Critchley
Cropper (James)
EMAP
Hewetson
Norcros
Queensborough Hldgs.
Southnews
South Staffordshire Water
Vibroplant

■ TOMORROW
COMPANY MEETINGS:
Baillie Gifford Japan Trust, 1 Rutland *Court, Edinburgh, 12.30*
Smiths Industries, 765 Finchley Road, Childs Hill, N.W., 12.00
BOARD MEETINGS:
Finals:
Abtrust High Inc. Tst.
McLeod Russel
Tadpole Technology
Interims:
Applied Holographics
Baring Stratton Inv. Tst.
Birkdale Grp.
CML Microsystems
Cathay Int.
China Inv. Tst.
Flogas
Gartmore Shared Equity Tst.
Gartmore Value Invs.
Kewill Systems
Lowndes Lambert
Northern Foods
Parkside Int.
Pilkington
Quiligotti
Readicut Int.
Stirling Inds.
Thorn EMI
Vodafone
West Tst.
Whitecroft
Yorkshire Water

■ WEDNESDAY
NOVEMBER 23
COMPANY MEETINGS:
Davies (D.Y.), 3 Paradise Road, Richmond Surrey, 11.00
Exmoor Dual Inv. Tst., *Chamber of Shipping, Carthusian Suite, Carthusian* Street, E.C., 12.00
F & C US Smaller Co's, 8th Floor, Exchange House, Primrose Street, E.C., 12.30
Graystone, The *Institute of Directors, Pall* Mall, S.W., 10.30
BOARD MEETINGS:
Finals:
Amber Indl. Hldgs.
Fenchurch
Morland & Co.
Tate & Lyle
Interims:
Asprey
Chloride Grp.
DCC
First Ireland Inv.
Foster (John)
Johnson Matthey
National Grid
Reed Executive
TR High Inc. Tst.
Waddington (John)

■ THURSDAY
NOVEMBER 24
COMPANY MEETINGS:
ECU Trust, 25 Copthall Avenue, E.C., 12.30
The Hong Kong Investment Trust, 11th floor, Knightsbridge House, S.W., 10.30
Galliford, The Hilton National Coventry Hotel, Coventry, 12.15
Lloyds Chemists, New Court Hall, New Court lane, Berswell, Warwicks., 10.30
BOARD MEETINGS:
Finals:
Concentric
Henderson Strata Inv.
Kleinwort Euro Privatisation Inv. Tst.
Morland & Co.
Scottish Inv. Tst.
Tomkinsons
Interims:
Allied Domecq
Babcock Int.
Business Post
CPL Aroma
Caledonia Invs.
Chamberlin Phipps
City of London PR Grp.
Cleveland Tst.
Dart Grp.
Fleming High Inc. Inv. Tst.
IWP Int.
ML Hldgs.
Macdonald Martin Distilleries
Martin Currie Euro Inv. Tst.
Osborne & Little
RPC
Rothmans Int.
Secure Retirement
South West Water

■ FRIDAY
NOVEMBER 25
COMPANY MEETINGS:
Maunders (John), Holiday Inn Crowne Plaza Hotel, Peter Street, Manchester, 12.00
Pochin's, Brooks Lane, Middlewich, Cheshire, 12.00
Tay Homes, The Queens Hotel, City Square, Leeds, 2.30
BOARD MEETINGS:
Finals:
Abtrust Emerging Economies Inv. Tst.
London Sec.
TR Far East Inc. Tst.
Interims:
Bristol Evening Post
Drayton Blue Chip Tst.
Stoddard Sekers
Syltone
Vistec Grp.
Welsh Water

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

CONTRACTS & TENDERS

HUNGARY

INVITATION TO TENDER

Air Traffic and Airport Administration
and
Komplex Trading Company Ltd.

IMPLEMENTATION OF THE EN-ROUTE NAVIGATIONAL EQUIPMENT

In the name of the Air Traffic and Airport Administration of the Ministry of Transport, Communication and Water Management of the Republic of Hungary, the KOMPLEX Trading Company Ltd. invites bids for the supply, installation and commissioning of the En-Route Navigational Equipment (DVOR/DME.NDB with Remote Control and Maintenance System) in Hungary.

The Republic of Hungary has signed a finance contract with the European Investment Bank/EIB/ for the partial financing of the project.

The tender is open, under the same conditions, to all firms (natural persons or corporate bodies) from at least the member countries of the European Union/EU/ and Hungary.

The complete tender documents will be available starting November 21st 1994.

KOMPLEX Trading Company Ltd.
H-1807 Budapest VI
Andrassy ut 10
Hungary

(Attention: Dr. Novák Lajosné, Head of Department)

Telephone: (36-1) 132-0592
Fax: (36-1) 131-6527
Telex: 22-5957

The tender documents may be consulted on the premises of the KOMPLEX Trading Company Ltd. between 09.00 and 14.00 on workdays and purchased against payment of a non-refundable of USD 1000 (or, in case of Hungarian companies, of the equivalent in Hungarian Forint converted at the current official exchange rate). Payments must be made either in cash or into *Komplex Trading Co. Ltd's account no.* 219-98564/0100-100913-001 at the Unicbank R.T. Budapest.

Bids, in English and accompanied by a bid security for 10 percent of the bid amount, shall be forwarded to the Komplex Trading Company Ltd. at the above mentioned address before 13.00 on February 6th, 1995, when the tenders will be opened by the tender board.

The tender results will be made public on March 14th, 1995.

CONFERENCES & EXHIBITIONS

NOVEMBER 24
Israel - Trade & Investment in an Emerging Market
Major international conference in association with the Israeli Embassy following the successful Cassablanca summit. Speakers include Government Ministers & Companies already established in Israel. Topics cover Major Capital Projects, Privatisation, Financing and Technical Issues, Regional Co-operation.
INTERFORUM Tel: +44 (0) 71 386 9322 Fax: +44 (0) 71 381 8914
LONDON

NOVEMBER 28
FT Financial Reporting in the UK
This year's conference will provide essential guidance for preparers and users of accounts on interpreting the complexities of existing and emerging ASB standards. Issues to be covered will include: Accounting for off-balance sheet finance; merger and acquisition accounting; valuing intangibles and brands; derivatives.
Enquires: Financial Times
Tel: 081 673 9000 Fax: 081 673 1335
LONDON

NOVEMBER 28 & 29
Strategies for Buying and Selling Companies
The past year has witnessed an increase in M&A activity, unparalled since the mid-80's. This conference will cover the strategic, legal tax and accounting issues that need to be considered when buying or selling a public and/or private company.
Contact: Acquisitions Monthly - Tel: 0171 823 8740 Fax: 0171 581 4331.
LONDON

NOVEMBER 28-29
Global Emerging Markets Investment Management
Major International conference on global emerging debt and equity markets looking at CIS, Eastern Europe, Africa, the Mediterranean Rim; Asian and Indian Subcontinent, Latin America and the Carribean. Programme designed for international portfolio investors and asset allocators and emerging markets specialists.
Contact: Alison Elgar, Dow Jones Telerate Ltd
Tel: 071 832 9532 Fax: 071 353 2791
LONDON

NOVEMBER 29 &30
Positive Management of workforce Restructuring
There is no easy solution to the problems of workforce restructuring. But managed with skill, the impact on the company and those who must leave can be massively reduced. This workshop is designed to illustrate through practical case study material how to manage restructuring positively.
For further details contact Rachel Thomas of Sarah Williams, IBC Technical Services.
Tel: 071 637 4383. Fax: 071 631 3214
LONDON

NOVEMBER 29-30
Managing Corporate Transformation:
The UK's premier event on planning, implementing and sustaining organisational and cultural change. This two-day conference includes frank discussion of why so many initiatives fail and explores proven methods for achieving critical buy-in and support for new organisation structures and working practices.
Contact: Business Intelligence
Tel: 081-543 6565 Fax: 081-544 9020
LONDON

DECEMBER 1
Internationalisation: Power & Energy Services. The Business Opportunities for UK Companies
Key speakers from industry and commerce, will outline current and future strategies for maximising the potential of the world industrial power market.
Details from: Judith Mackenzie, The Institute of Energy, 18 Devonshire Street, London W1N 2AU
Tel: 0171 580 0008 Fax: 0171 580 4420
LONDON

DECEMBER 1 & 2
Post-Acquisition Management
Up to 70% of acquisitions fail to achieve their objectives. This workshop provides a unique opportunity to learn how to successfully handle business strategy and human resources problems, integration and cultural differences. This could make the difference between success and failure.
Contact: Acquisitions Monthly - Tel: 0171 823 8740 Fax: 0171 581 4331.
LONDON

DECEMBER 1
Europe and the Arab World - "Breaking The Barriers - New Political & Business Opportunities
A one-day conference supported by the League of Arab States and CAABU involving major European and Arab figures. Conference includes a European grants workshop.
Full details from MEC Conferences
Tel: 071 924 2980 Fax: 071 924 2991
LONDON

DECEMBER 2
Currency Risk Management Workshop
Understand and identify exposures, and learn the techniques of currency risk management. Spot and Forward FX. Standard and 'Exotic' Currency Options. Zero Premium Strategies. Currency Swaps.
£275 1 DAY
Contact: Fairplace Banking & Financial Training Tel: 071 329 0595
LONDON

DECEMBER 2
The Textile Institute Parliamentary Lunch
Discuss issues affecting the textile industry and visit the Galleries at the Houses of Parliament. Lunch sponsored by Gary Waller MP.
Contact: Sally Pearson, The Textile Institute Tel: +44 (0) 171 580 8289
Fax +44 (0) 171 580 9535
LONDON

DECEMBER 5
Money Laundering - The Law, Responsibilities & Procedures
The Criminal Justice Act places new responsibilities on financial institutions and staff. This one-day course will address Definition, Identification, Regulation, Responsibilities, and the role of Supervisory Bodies with practical examples.
Contact: Fairplace Banking & Financial Training
Tel: 071 329 0595
LONDON

DECEMBER 5-6
Treasury Sales Workshop
The sale of Treasury Products is now a key area for many banks and financial institutions, and can help build profitable client relationships. Topics covered include: Planning and Developing Sales Initiative. Instruments Available to Manage Risk. Corporate Hedging Techniques. Cross Selling. £400 - 2 days.
Contact: Fairplace Banking & Financial Training
Tel: 071 329 0595
LONDON

DECEMBER 6 & 7
Lobbying The European Union
This conference is addressed to those who know something of Brussels and need to stay up to-date with the changes that are currently taking place.
Further details from International Professional Conferences Ltd
Tel: 061 445 8623
LONDON

DECEMBER 7
Advanced Software Solutions in Manufacturing and Engineering
Seminar for business and technical managers showing use of practical applications of logic programming software in manufacturing and engineering, including problems of intelligent scheduling. Leading international companies present state-of-the-art systems. Includes panel discussion and vendor displays.
Contact: Al Roth, tel: 0253 358081
LONDON

DECEMBER 7-8
Succeeding with Teams:
practical strategies for designing, implementing and driving the team-based organisation. An international two-day conference specifically designed to help senior executives understand the fundamental issues involved in designing and implementing a team-based organisation.
Contact: Business Intelligence
Tel: 081-543 6565 Fax: 081-544 9020
LONDON

DECEMBER 8
The UK Economy
Prospects up to and beyond the next General Election.
This Henley Centre Conference is our annual look at the UK Economy and its prospects for the medium term.
Cost: £350 + VAT
Contact: Anna Harman at The Henley Centre Tel: 071 353 9961
LONDON

DECEMBER 8
Developing IT and Communications
A BA Speedwing workshop to identify the information technology solutions you need linking them to business goals. Ensure hardware, software and networking match your needs. Find out what Superhighways are - whether they're relevant.
Contact: Nick Hamilton, West London TEC on 081-814-3240; fax: 081-570-9969
LONDON

DECEMBER 8 & 9
Empowerment Through The Line Manager
Often a vastly under used resource, line managers represent the keystone to achieving radical and immediate performance improvements. This event consists of case studies illustrating empowerment of line managers to run teams, manage day-to-day crisis and take greater responsibility for change.
For further details contact Rachel Thomas or Sarah Williams, IBC Technical Services.
Tel: 071 637 4383. Fax: 071 631 3214.
LONDON

DECEMBER 9
Successful International Trade Payment and Finance
In association with Brick Court Chamber. Different types of payment and finance; mechanics of letters of credit; discrepancies in documents; standby credits, performance bonds and demand guarantees: financiers security; fraud; litigation. Case study. CPD 6 hours.
Contact: Athina Bradley, IBC
Tel. 071 637 4383 Fax: 071 631 3214
LONDON

DECEMBER 12 - 14
The Future of European Research, European Commission's Fourth Framework Programme.
Conference and Workshops on individual Research & Technical Development programmes. Meet potential partners & experts speakers from the EC, Industry & R&D who will identify the objectives & application procedures within the framework.
INTERFORUM Tel: +44 (0) 71 386 9322
Fax. +44 (0) 71 381 8914
LONDON

DECEMBER 13
Energy Seminar - Transition or Maturity? A Review of Current Policy and Development
This CRI seminar examines recent regulatory reviews, competition development, consumer interests and European energy policy. Speakers from OFGAS, SWEB, NERA, British Gas, Electricity Pool, Gas Consumers Council, IEA.
Cost £299 + VAT
Contact: Leigh Sykes, CRI
Tel: 071 895 8823 Fax: 071 895 8825
LONDON

DECEMBER 13
Advanced Documentary Credits and Trade Finance
An intensive one day conference that looks at the key issues around UCP 500, focuses on Letters of Credit, Bills of Lading and forfaiting, and reviews the treatment of fraud in documentary credit transactions.
Contact: Interforum Services Ltd
Tel: 44 71 386 9322
LONDON

DECEMBER 13
Beating the Money Launderers - Attention Lawyers!
Afternoon Seminar
Your UK statutory obligations; your vulnerabilities; practial policies and procedures for compliance; Compliance Surgery - get answers to your own questions. Speakers: Monty Raphael and Michael Hyland, Monica Bond, Grant Thornton. CPE 2.5 hours.
Contact: Helen Houseman, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

DECEMBER 13
Beating the Money Launderers - Attention Accountants!
Morning Seminar
Your UK statutory obligations; your vulnerabilities; practial policies and procedures for compliance; Compliance Surgery - get answers to your own questions. Speakers: Michael Hyland and Monica Bond, Grant Thornton. ICAEW CPE 6.5 pts.
Contact: Helen Houseman, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

DECEMBER 13 & 14
The Lean Organisation
Identifying And Competing in your Own Distinctive Capabilities
Being lean involves standing back and stripping the organisation down to its true strengths - its distinctive capabilities. This entails looking at the organisation as a whole and radically rethinking every aspect of operations.
Contact: Rachel Thomas, IBC Technical Services.
Tel: 071 637 4383 Fax: 071 631 3214.
SOLIHULL

DECEMBER 15
Business Opportunities in Scotland
Sponsored by Edinburgh District Council, TSB, Arthur Andersen & McGrigor Donald and features Lord Thomson, Sir Ian Wood, Tom Farmer, John Lord. Discusses prospects for economy, investment, energy, agriculture, manufacturing and service.
Details: Cityforum Ltd
Tel: 0225 466744 Fax: 0225 442903
LONDON

JANUARY 16 & 17
Risk Management Systems for Banks
This practical two day conference examines how banks can evaluate build and implement a sound integrated risk management system. Learn how to successfully implement in-house and brought systems and link disparate structures from both a managerial and IT perspective. Speakers from eight major banks and four systems leaders.
Contact: Sophie Berger, AIC Conferences
Tel: 071 242 1548
LE MERIDIEN, LONDON

JANUARY 24 & 25
Re-engineering the I.T. Function:
Re-aligning I.T. culture, capabilities and skills to deliver radical business performance improvement.
An international two-day conference of leading experts and practitioners which explores the introduction of new strategies, development of new organisations and management structures to enable I.T. to play a key role in transforming the business.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

JANUARY 25 - 27
Digital Images
Europe's first major conference and exhibition photography, digital image capture, manipulation, storage, archiving, proofing and electronic delivery. Speakers from all over the world share their experience. There are also 36 special-interest sessions which may be booked individually.
Details: The Hammond Organisation
+44 081 943 9700
LONDON

JANUARY 26 1995
Strategy Update
In today's increasingly complex and hostile markets it is no longer sufficient to rely on past experience. Managers must think strategically when developing and implementing plans which will impact their company's competitive position. Yet most managers devote less than 3% of their time to strategy development. This seminar aims to redress the balance.
Contact: Elaine Parocki at Cranfield School of Management
Tel: 0234 751122 Fax: 0234 750070
CRANFIELD

JANUARY 26 & 27
Valuing International Companies
This event is held in response to ever increasing pressure to place realistic values on foreign companies in a variety of contexts. Company executives, bankers and other professionals will study valuation techniques in practice, as well as the possible problems encountered in real life scenarios.
Contact: Acquisitions Monthly - Tel: 0171 823 8740 Fax: 0171 581 4331.
LONDON

JANUARY 31
Strategic Reward Policies
A critical factor for business success
This practical programme for senior executives will show how linking reward policies to strategic objectives can have a measurable impact on the successful implementation of corporate strategy. Run by Cranfield School of Management and The Wyatt Company.
Contact: Jane Reed Tel: 0234 751122
The Institute of Directors.
LONDON

FEBRUARY 6
7th Annual One Day Conference Regulation 1995 - Practical Compliance for IMRO, PIA/LAUTRO
SIB update; enforcement and discipline; pension transfers. Parallel sessions for IMRO and PIA/LAUTRO members - current issues, training and competence, handling the Regulator. Law Society CPD 5 hours. PIA CPD 5.5 hours.
Contact: Linda McKay, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

FEBRUARY 15
Still Protecting the Media
In association with Richards Butler. What's new in libel; latest in copyright; breach of confidence issues; consequences of contempt of court; civil liberties and the media; remit of the BCC; insurance - errors and omissions; what about the PCC? Speakers include: Carlton Television, BC C, BBC, News International, CPD 5 hours.
Contact: Athina Bradley, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

FEBRUARY 17
Local Authority Financing
LAs and ultra vires; bank's perspective; deferred purchases and other agreements; borrowing options; consequences of ultra vires actions; LA perspective; what LAs need and what they can offer. Speakers from Bevan Ashford, Clifford Chance, Integer Treasury Services, LB of Hammersmith & Fulham, McKenna & Co., Morgan Grenfell, Norton Rose, Public Works Loan Board. CPD 5 hours.
Contact: Helen Houseman, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

FEBRUARY 20
Direct Marketing and The Law
In association with Clifford Chance. Present and pending UK law; European Commission update; data protection concerns; regulating global direct marketing; what's happening in US; new techniques and technologies; Compliance Surgery - questions ASA, MPS, DMA, FEDIM, ICSTIS. Law Society CPD 4.5 hours. Contact: Linda McKay, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

FEBRUARY 22
Incorporation of Professional Practices
In association with Clark Whitehill. Post 1997 taxation changes; protecting assets and reducing liabilities; professional indemnity issues; managing change; remuneration packages; market valuation. Essential forum for senior partners, managing partners, tax partners, finance partners and advisers. CPD 5 hours
Contact: Athina Bradley, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

MARCH 1
Achieving 'Secure' Guarantees
Nature and construction of guarantees; Exploring the options: utilising other instruments; understanding the risks; avoiding the pitfalls; unique Guarantee Surgery. Speakers from Allen & Overy, Clyde & Co., McKenna & Co; Metropolitan Police; Tarlo Lyons; Wilde Sapte; Essex Court Chambers; 3 Grays Inn Place. CPD 4 hours.
Contact: Helen Houseman, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

MARCH 20
Travel Law and Practice
Official Publication: Travel Trade Gazette UK & Ireland. European issues; corporate and personal liability; establishing QA systems; current enforcement pitfalls and prosecutions; handling the media; ATOL Regulations; airline industry/tour operator relationship; legal checklist for the travel product. Speakers include Daniella Hesse-Wagner, Exec Dir, ETOA. CPD 5 hours.
Contact: Linda McKay, IBC
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

DECEMBER 1-4
EXPO-Pakistan: Trade Fair
A unique opportunity for business contacts and to see the extensive array of Pakistan's products: textiles, jewellery, ceramics, sanitaryware, onyx, giftware, carpets, sports goods, hand-crafted furniture etc.
Contact: Mr M Athar Tahir,
Pakistan High Commission
Fax: 071 235 8731 10.00 A.M. to 6.00 P.M. daily Admission free.
BARBICAN, LONDON

INTERNATIONAL

NOVEMBER 29-30
The Teleshopping Explosion: Creating Asian, North American & European Partnerships
NIMA International, in conjunction with MIP Asia, presents its first Asian Teleshopping Conference on electronic retailing.
Contact: Vivien Wallace, Lippin Wallace
Tel: 71-630 9977 Fax: 71-630 9806
HONG KONG

DECEMBER 5-6
Competitive Intelligence
Seminar for managers who want to learn how Competitive Intelligence supports both operational effectiveness and strategic positioning. Topics include aims and role of intelligence in firms, collection methods, analytical techniques, organisation, and counter-intelligence. Principal lecturers are former professional intelligence officers.
Contact: Business Research Group
Tel: 022 929 1900 Fax: 022 788 0824
GENEVA

JANUARY 25 & 26
Beyond Reengineering
This conference will explore how organisations can increase global competitiveness by improving or innovating business processes to be more customer focused; maximising workforce potential and incorporating change management principles. Keynote presentation by Martin Bangemann, EC Commissioner on Competitiveness.
Contact: Kathleen Stuart-King.
+ (32) 2675 54 05 (Telephone)
+ (32) 2675 03 95 (Fax)
BRUSSELS

JANUARY 26 & 27
Technical Assistance & Economic Aid to the Former Soviet Union, Central & Eastern Europe: The Way Forward
Examining the business opportunities within EC aid programmes (Phare & TACIS). With representatives from EC, World Bank, Know-How Fund, industry & consultants. Time allocated for individual meetings between participants, aid agencies & consultants.
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Fax: +44 (0) 71 381 8914
BRUSSELS

MARCH 27-29
"Sub-Saharan Oil & Minerals"
Speakers include Cabinet Ministers from over 30 African countries. Co-hosted by the SA Chamber of Mines; Gabonese Ministry of Mines & Energy; Nigerian National Petroleum Corporation; Sonangol; SA Ministry of Mineral & Energy Affairs and Europe Energy Environment. Please contact Europe Energy Environment, 3 Hayne Street, London EC1A 9HH, tel: 44-71-600 6660, fax: 44-71-600 4044.
JOHANNESBURG

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WORLD STOCK MARKETS

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Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. High/Low are for 1994, except Toronto & Montreal (daily). ¶ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, November 18, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
M'bishi Heavy	5.3m	750	+2	Mitsui Mine	3.6m	446	+7
Nippon Paper	4.1m	749	+6	Matsushita	3.4m	1,540	-40
Sony Corp	4.0m	5,480	-310	Konica	2.6m	770	+17
Kayaba Ind	3.8m	664	+1	Nissan	2.5m	804	+9
Nippon Steel	3.6m	383	-3	Toshiba	2.0m	708	-8

INDICES

	Nov 18	Nov 17	Nov 16	1994 High		1994 Low	
Argentina							
General (29/12/77)	17845.63	18032.57	18491.22	25470.40	18/2	17768.80	20/4
Australia							
All Ordinaries(1/1/80)	1922.0	1922.4	1940.3	2340.60	3/2	1922.00	18/11
All Mining(1/1/80)	970.2	983.3	991.1	1138.10	3/2	904.80	5/5
Austria							
Credit Aktien(30/12/84)	386.17	386.14	387.16	460.66	2/2	376.94	25/10
Traded Index(2/1/91)	1024.13	1025.62	1031.66	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1391.46	1389.27	1393.25	1542.65	9/2	1336.38	7/10
Brazil							
Bovespa (29/12/83)	47125.0	48737.0	49696.0	55110.00	13/9	3800.90	3/1
Canada							
Metals Minls♦(1975)	3926.32	3933.39	3958.89	4278.82	20/10	3299.06	20/4
Composite♦ (1975)	4114.60	4143.80	4171.70	4608.90	23/3	3959.90	24/6
Portfolio§§ (4/1/83)	2001.87	2008.36	2020.39	2182.68	1/2	1868.48	28/6
Chile							
IPSA Gen (31/12/80)	5712.9	5724.8	5865.6	5724.80	17/11	3901.20	4/4
Denmark							
CopenhagenSE(3/1/83)	346.16	346.07	345.43	415.79	2/2	337.19	8/11
Finland							
HEX General(28/12/90)	1926.8	1945.0	1939.7	1972.00	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1280.81	1284.58	1297.66	1585.20	2/2	1227.86	25/10
CAC 40(31/12/87)	1926.50	1927.53	1950.20	2355.93	2/2	1824.42	25/10
Germany							
FAZ Aktien(31/12/58)	788.57	789.51	(c)	859.27	18/5	742.04	5/10
Commerzbank(1/12/53)	2247.30	2249.70	(c)	2485.50	2/5	2116.30	5/10
DAX (30/12/87)‡	2100.23	2102.69	(c)	2271.11	16/5	1960.59	7/10
Greece							
Athens SE(31/12/80)	816.50	816.79	821.04	1194.58	18/1	804.58	10/11
Hong Kong							
Hang Seng(31/7/64)	9427.44	9518.28	9592.24	12201.09	4/1	8380.44	4/5
India							
BSE Sens.(1979)	(c)	4158.19	4113.79	4628.57	12/9	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	509.84	512.46	514.14	612.88	5/1	449.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1828.44	1841.05	1840.71	2082.18	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	643.59	638.28	640.41	817.17	10/5	598.85	10/1
MIB General (4/1/94)	1043.0	1034.0	1036.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	19302.58	19336.57	19306.66	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	279.73	280.75	280.21	311.71	13/6	258.22	4/1
Topix (4/1/68)	1523.47	1527.61	1525.60	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2147.70	2160.29	2156.55	2542.65	6/7	1673.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	1048.58	1052.48	1063.15	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2465.21	2510.41	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtlRtnGen(End 83)	436.4	438.5	439.4	454.90	31/1	408.39	21/6
CBS All Shr (End 83)	273.8	275.1	275.7	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	2052.86	2049.21	2038.02	2439.64	3/2	1945.51	11/7
Norway							
Oslo SE(Ind)(2/1/83)	1055.94	1057.63	1056.72	1211.10	28/2	980.91	21/6
Philippines							
Manila Comp (2/1/85)	2913.10	2904.10	2901.45	3306.37	4/1	2507.33	9/3
Portugal							
BTA (1977)	2938.2	2923.2	2916.0	3226.60	18/2	2812.80	20/6
Singapore							
SES All-S'pore(2/4/75)	566.66	571.67	570.56	641.61	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	2139.0♥	2189.0	2167.0	2534.00	7/9	1749.00	14/2
JSE Indl. (28/9/78)	6950.0♥	6912.0	6850.0	6950.00	18/11	5446.00	19/1
South Korea							
KoreaCmpEx(4/1/80)**	1118.45	1120.63	1116.75	1138.75	8/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	302.21	301.79	302.76	358.31	31/1	288.65	26/10
Sweden							
AffarsvardsGen (1/2/37)	1508.50	1500.40	1514.50	1603.80	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1223.63	1220.49	1218.65	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	923.58	921.42	923.48	1093.29	31/1	876.57	27/10
Taiwan							
WeightedPr.(30/6/66)**	6350.71	6297.88	6346.78	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1457.49	1479.26	1489.15	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Cmp.(Jan 1986)	27235.68	27001.3	27421.0	28863.69	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)§	623.2*	625.3	626.4	649.99	2/11	591.80	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1344.08	1350.69	1358.69	1540.19	31/1	1286.48	5/10
Euro Top-100 (26/6/90)	1192.87	1192.53	1200.78	1311.01	2/2	1138.48	5/10
JCapelOrgns (31/12/88)	(u)	335.36	338.82	395.18	5/1	280.28	21/3
Barings Emerg.(7/1/92)	177.24	179.69	179.36	191.79	26/9	141.65	21/4

** Sat Nov 12: Taiwan Weighted Price (c) ; Korea Comp Ex 1116.23. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 18 - 2069.48 -2.46

US INDICES

Dow Jones	Nov 18	Nov 17	Nov 16	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3815.26	3826.05	3845.20	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	93.78	93.98	94.24	105.61 (21/1)	93.78 (18/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1468.54	1475.29	1483.67	1862.29 (2/2)	1438.50 (6/10)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	174.47	175.72	176.64	227.06 (3/1)	174.47 (18/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3844.87 (3868.06) Low 3773.21 (3797.77) (Theoretical♠) Day's high 3828.70 (3849.24) Low 3784.98 (3808.87) (Actual♠)

Standard and Poors	Nov 18	Nov 17	Nov 16	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	461.47	463.56	465.60	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	552.14	553.83	555.85	563.10 (28/10)	510.05 (21/4)	563.10 (28/10/94)	3.62 (21/6/32)
Financial	41.31	41.77	42.34	46.94 (14/6)	41.31 (18/11)	48.48 (28/8/93)	8.64 (1/10/74)
NYSE Comp.	252.30	253.49	254.71	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	444.04	446.13	446.39	487.89 (2/2)	422.57 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	764.67	765.84	769.64	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Nov 11	Nov 4	Oct 28	Year ago
Dow Jones Ind. Div. Yield	2.78	2.78	2.70	2.71
	Nov 16	Nov 9	Nov 2	Year ago
S & P Ind. Div. yield	2.38	2.39	2.39	2.38
S & P Ind. P/E ratio	19.03	20.93	20.95	26.88

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	464.35	463.20	-1.15	465.10	460.70	82,532	205,410
Mar	466.80	466.40	-1.10	467.80	463.90	6,529	34,377
Jun	-	470.50	-1.00	471.90	467.85	369	4,305

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Sports Auth	7,580,300	24	+5
Gen Motors	7,106,500	37⅞	-⅛
Wal-Mart	5,867,100	22⅞	+¼
Merck	4,848,300	37⅜	+⅛
Telefonos	4,361,300	50⅜	-⅜
AT&T	4,289,500	52½	—
RJR Nabisco	3,288,400	6¾	-⅛
Citicorp	2,752,600	43¾	-⅜
Sunbeam	2,700,300	24	...
Waste Co	2,300,000	16¼	+¼

■ TRADING ACTIVITY

● Volume (million)	Nov 18	Nov 17	Nov 16
New York SE	356.895	323.188	295.973
Amex	17.064	16.388	15.132
NASDAQ	(u)	317.215	276.634
NYSE			
Issues Traded	2,923	2,932	2,920
Rises	794	743	1,035
Falls	1,408	1,462	1,208
Unchanged	721	727	677
New Highs	21	23	22
New Lows	219	204	163

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	1940.0	1936.0	-	1941.0	1918.0	16,913	21,890
Dec	1949.0	1944.0	-	1949.0	1926.5	1,413	25,471
Jan	1957.0	1952.0	-	1957.0	1935.0	-	237

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.1604	+0.0186	536 - 681	17.1379	17.1080	17.158	0.3	17.1442	0.4	-	-	115.2
Belgium	(BFr)	50.1358	+0.0258	168 - 548	50.2570	50.1110	50.1008	-0.6	50.0358	0.8	49.0308	1.0	117.0
Denmark	(DKr)	9.5361	+0.0074	316 - 406	9.5596	9.5316	9.5337	0.3	9.5484	-0.5	9.528	0.1	116.6
Finland	(FM)	7.4580	-0.0739	485 - 675	7.4900	7.4485	-	-	-	-	-	-	88.5
France	(FFr)	8.3737	+0.0017	708 - 766	8.3980	8.3645	8.3745	-0.1	8.3666	0.3	8.3126	0.7	109.9
Germany	(DM)	2.4379	+0.0011	370 - 388	2.4456	2.4355	2.437	0.5	2.4335	0.7	2.4038	1.4	126.1
Greece	(Dr)	375.764	+0.475	523 - 004	376.080	374.167	-	-	-	-	-	-	-
Ireland	(I£)	1.0147	-0.0023	141 - 153	1.0201	1.0134	1.0145	0.2	1.0142	0.2	1.0159	-0.1	104.0
Italy	(L)	2498.50	-0.33	815 - 084	2503.06	2490.60	2505.2	-2.7	2516.5	-2.7	2504.75	-2.8	74.2
Luxembourg	(LFr)	50.1358	+0.0258	168 - 548	50.2570	50.1110	50.1608	-0.6	50.0358	0.8	49.0308	1.0	117.0
Netherlands	(Fl)	2.7320	+0.0011	306 - 334	2.7381	2.7305	2.7309	0.5	2.7273	0.7	2.0078	1.3	120.8
Norway	(NKr)	10.6736	+0.006	688 - 783	10.7067	10.6499	10.6738	0.0	10.6753	-0.1	10.6742	0.0	85.5
Portugal	(Es)	249.071	+0.41	937 - 205	249.191	248.576	250.801	-8.3	253.981	-7.9	-	-	-
Spain	(Pta)	202.999	-0.041	914 - 083	203.558	202.570	203.349	-2.1	204.004	-2.0	206.944	-1.9	85.7
Sweden	(SKr)	11.5017	-0.0548	920 - 113	11.5905	11.4911	11.5207	-2.0	11.5632	-2.1	11.7077	-1.8	76.8
Switzerland	(SFr)	2.0640	+0.0163	627 - 652	2.0662	2.0522	2.0607	1.9	2.0537	2.0	2.0133	2.5	120.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.7
Ecu	-	1.2801	+0.0003	792 - 809	1.2833	1.2787	1.28	0.0	1.2805	-0.1	1.2741	0.5	-
SDR†	-	0.931718	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5692	-0.0043	686 - 696	1.5725	1.5639	-	-	-	-	-	-	-
Brazil	(R)	1.3117	+0.0011	098 - 135	1.3144	1.3045	-	-	-	-	-	-	-
Canada	(C$)	2.1441	-0.0028	432 - 449	2.1490	2.1389	2.1431	0.6	2.1418	0.4	2.1404	0.2	86.6
Mexico	(New Peso)	5.4165	-0.0167	129 - 200	5.4250	5.4020	-	-	-	-	-	-	-
USA	($)	1.5690	-0.0052	686 - 693	1.5722	1.5642	1.5691	-0.1	1.5689	0.0	1.5662	0.2	82.5
Pacific/Middle East/Africa													
Australia	(A$)	2.0692	-0.0239	680 - 703	2.0803	2.0678	2.0713	-1.2	2.0741	-0.9	2.088	-0.9	-
Hong Kong	(HK$)	12.1303	-0.0414	268 - 338	12.1547	12.0931	12.1213	0.9	12.117	0.4	12.0718	0.5	-
India	(Rs)	49.2160	-0.1647	991 - 329	49.3120	49.0730	-	-	-	-	-	-	-
Japan	(Y)	154.581	+0.081	507 - 655	154.700	153.870	154.171	3.2	153.186	3.6	148.241	4.1	190.4
Malaysia	(M$)	4.0259	-0.0117	242 - 276	4.0335	4.0161	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5148	-0.0157	122 - 173	2.5250	2.5112	2.5195	-2.2	2.5287	-2.2	2.5486	-1.3	-
Philippines	(Peso)	38.3295	-0.0023	425 - 165	38.4200	38.2420	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8851	-0.0197	833 - 868	5.8969	5.8676	-	-	-	-	-	-	-
Singapore	(S$)	2.3051	-0.0114	040 - 061	2.3137	2.2997	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5490	-0.0044	466 - 514	5.5577	5.5361	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4672	-0.0736	501 - 843	6.5167	6.4375	-	-	-	-	-	-	-
South Korea	(Won)	1248.65	-4.18	829 - 901	1251.31	1244.95	-	-	-	-	-	-	-
Taiwan	(T$)	41.2759	-0.0134	557 - 961	41.3504	41.1619	-	-	-	-	-	-	-
Thailand	(Bt)	39.2395	-0.1391	150 - 639	39.3420	39.1520	-	-	-	-	-	-	-

†SDR rates for Nov 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.9375	+0.047	350 - 400	10.9845	10.9175	10.93	0.8	10.9135	0.9	10.816	1.1	104.3
Belgium	(BFr)	31.9550	+0.123	500 - 600	32.0900	31.8800	31.935	0.8	31.8875	0.8	31.69	0.8	106.0
Denmark	(DKr)	6.0780	+0.025	765 - 795	6.1010	6.0645	6.0773	0.1	6.083	-0.3	6.1015	-0.4	105.3
Finland	(FM)	4.7535	+0.007	485 - 585	4.7837	4.7460	4.7508	0.7	4.7465	0.4	4.76	-0.1	82.9
France	(FFr)	5.3372	+0.0189	365 - 378	5.3585	5.3230	5.3363	0.2	5.3325	0.4	5.3077	0.6	106.1
Germany	(D)	1.5539	+0.0059	536 - 541	1.5650	1.5500	1.5532	0.5	1.551	0.7	1.5349	1.2	107.0
Greece	(Dr)	239.500	+1.1	400 - 600	239.980	238.700	239.77	-1.4	240.325	-1.4	242.475	-1.2	68.3
Ireland	(I£)	1.5462	-0.0017	456 - 468	1.5511	1.5378	1.5464	-0.2	1.5468	-0.2	1.5425	0.2	-
Italy	(L)	1593.10	+5.1	260 - 360	1598.00	1588.25	1596.65	-2.7	1603.9	-2.7	1637.6	-2.8	74.8
Luxembourg	(LFr)	31.9550	+0.123	500 - 600	32.0800	31.8800	31.935	0.8	31.8875	0.8	31.69	0.8	106.0
Netherlands	(Fl)	1.7413	+0.0065	408 - 418	1.7485	1.7375	1.7405	0.6	1.7383	0.7	1.7226	1.1	105.7
Norway	(NKr)	6.8030	+0.0285	015 - 045	6.8435	6.7782	6.8112	-1.5	6.829	-1.5	6.8555	-0.8	95.7
Portugal	(Es)	158.750	+0.79	700 - 800	159.170	158.210	159.325	-4.3	160.45	-4.3	164	-3.3	95.2
Spain	(Pta)	129.385	+0.405	360 - 410	129.860	128.870	129.6	-2.0	130.02	-2.0	132.135	-2.1	80.7
Sweden	(SKr)	7.3308	-0.0104	263 - 353	7.3823	7.3195	7.342	-1.8	7.3689	-2.1	7.4858	-2.1	81.9
Switzerland	(SFr)	1.3155	+0.0147	150 - 160	1.3195	1.3065	1.3134	2.0	1.3089	2.0	1.2855	2.3	107.2
UK	(£)	1.5690	-0.0052	686 - 693	1.5722	1.5642	1.5691	-0.1	1.5689	0.0	1.5662	0.2	88.2
Ecu	-	1.2257	-0.0044	252 - 262	1.2285	1.2207	1.2257	0.0	1.226	-0.1	1.2292	-0.3	-
SDR†	-	1.46871	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0002	+0.0006	001 - 002	1.0002	0.9998	-	-	-	-	-	-	-
Brazil	(R)	0.8360	+0.0035	350 - 370	0.8370	0.8350	-	-	-	-	-	-	-
Canada	(C$)	1.3666	+0.0028	663 - 668	1.3685	1.3650	1.3663	0.2	1.366	0.2	1.3711	-0.3	83.1
Mexico	(New Peso)	3.4523	+0.0009	508 - 538	3.4538	3.4508	3.4533	-0.3	3.4551	-0.3	3.4625	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.7
Pacific/Middle East/Africa													
Australia	(A$)	1.3189	-0.0108	184 - 193	1.3280	1.3184	1.3197	-0.7	1.3215	-0.8	1.3342	-1.2	88.2
Hong Kong	(HK$)	7.7315	-0.0005	310 - 320	7.7328	7.7307	7.7295	0.3	7.7283	0.2	7.736	-0.1	-
India	(Rs)	31.3688	-	650 - 725	31.3725	31.3650	31.4388	-2.7	31.5838	-2.7	-	-	-
Japan	(Y)	98.5250	+0.38	000 - 500	98.5500	98.2500	98.255	3.3	97.635	3.6	94.65	3.9	151.1
Malaysia	(M$)	2.5660	+0.0012	655 - 665	2.5675	2.5650	2.563	1.4	2.5585	1.2	2.5885	-0.8	-
New Zealand	(NZ$)	1.6028	-0.0047	015 - 041	1.6087	1.6015	1.6037	-0.7	1.6062	-0.8	1.6152	-0.8	-
Philippines	(Peso)	24.4300	+0.08	800 - 800	24.4800	24.3000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7510	-	507 - 512	3.7512	3.7507	3.7546	-1.1	3.7615	-1.1	3.778	-0.7	-
Singapore	(S$)	1.4692	-0.0023	688 - 695	1.4720	1.4685	1.4678	1.3	1.4642	1.4	1.4477	1.5	-
S Africa (Com.)	(R)	3.5368	+0.009	360 - 375	3.5390	3.5235	3.5523	-5.3	3.5844	-5.4	3.7493	-6.0	-
S Africa (Fin.)	(R)	4.1220	-0.033	120 - 320	4.1500	4.1050	4.15	-8.2	4.1945	-7.0	4.432	-7.5	-
South Korea	(Won)	795.850	-	800 - 900	796.000	795.300	798.85	-4.5	802.35	-3.3	820.85	-3.1	-
Taiwan	(T$)	26.3080	+0.0792	010 - 150	26.3150	26.2420	26.328	-0.9	26.368	-0.9	-	-	-
Thailand	(Bt)	25.0100	-0.005	000 - 200	25.0300	25.0000	25.0395	-1.4	25.1305	-1.9	25.535	-2.1	-

†SDR rate for Nov 17. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 17. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅞	4⅞	5¼	5½	6¼	7.40	4.50	-
week ago	4⅞	4⅞	5¼	5½	6⅛	7.40	4.50	-
France	5⅝	5¾	5⅝	5⅞	6⅛	5.00	-	6.75
week ago	5⅝	5¾	5⅝	5⅞	6⅛	5.00	-	6.75
Germany	4.93	4.95	5.15	5.25	5.60	6.00	4.50	4.85
week ago	4.90	4.95	5.15	5.25	5.60	6.00	4.50	4.85
Ireland	5⅛	5¼	5⅝	6¼	7⅛	-	-	6.25
week ago	5⅛	5¼	5⅝	6¼	7⅛	-	-	6.25
Italy	8⅝	8⅝	8⅝	9⅛	9⅞	-	7.50	8.20
week ago	8⅝	8⅝	8⅝	8⅞	9⅞	-	7.50	8.20
Netherlands	4.84	5.04	5.24	5.37	5.78	-	5.25	-
week ago	4.84	5.04	5.25	5.38	5.76	-	5.25	-
Switzerland	3	3⅝	3⅞	4⅛	4½	6.625	3.50	-
week ago	3⅜	3⅝	4	4⅛	4½	6.625	3.50	-
US	5½	5⅝	5⅞	6⅜	6⅞	-	4.75	-
week ago	4⅞	5⅝	5¾	6⅛	6⅞	-	4.00	-
Japan	2¼	2¼	2⅜	2⅜	2⅝	-	1.75	-
week ago	2¼	2¼	2¼	2⅛	2⅝	-	1.75	-
$ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	6⅜	6⅞	-	-	-
week ago	-	5⅝	5⅞	6⅛	6¾	-	-	-
US Dollar CDs	-	5.50	5.75	6.09	6.72	-	-	-
week ago	-	5.50	5.50	5.86	6.50	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3¾	4	-	-	-
week ago	-	3⅝	3⅝	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 6½; 3 mths: 5⅞; 6 mths: 6¼; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4⅞ - 4⅝	4⅞ - 4⅝	4⅞ - 4⅝	5¼ - 5⅛	5½ - 5⅜	6⅛ - 6
Danish Krone	5¾ - 5½	5¾ - 5½	5¾ - 5½	6⅛ - 6	6⅝ - 6½	7¼ - 7
D-Mark	5⅛ - 4⅞	5 - 4⅞	5 - 4⅞	5⅜ - 5¼	5½ - 5⅜	5⅝ - 5½
Dutch Guilder	5 - 4⅞	5⅛ - 4⅞	5¼ - 5⅛	5¼ - 5⅛	5⅜ - 5¼	5⅞ - 5¾
French Franc	5⅜ - 5¼	5⅞ - 5⅝	5⅞ - 5¾	5⅝ - 5½	5⅞ - 5¾	6⅜ - 6¼
Portuguese Esc.	9 - 8⅞	9⅛ - 8⅞	9½ - 9¼	10⅛ - 9⅞	10⅜ - 10⅛	10⅜ - 10¼
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.02	16.70	4.861	2.023	4985	5.450	21.28	496.7	404.7	22.94	4.117	1.995	4.277	3.130	308.2	2.553
Denmark	(DKr)	52.57	10	8.780	2.555	1.063	2621	2.865	11.19	261.1	212.8	12.06	2.164	1.049	2.248	1.645	162.0	1.342
France	(FFr)	59.87	11.39	10	2.911	1.211	2985	3.263	12.74	297.4	242.3	13.73	2.465	1.194	2.561	1.874	184.5	1.529
Germany	(DM)	20.57	3.913	3.436	1	0.416	1025	1.121	4.378	102.2	83.26	4.719	0.847	0.410	0.880	0.644	63.40	0.525
Ireland	(I£)	49.44	9.404	8.257	2.403	1	2464	2.694	10.52	245.5	200.1	11.34	2.036	0.986	2.114	1.547	152.4	1.262
Italy	(L)	2.006	0.382	0.335	0.098	0.041	100.	0.109	0.427	9.964	8.119	0.460	0.083	0.040	0.086	0.063	6.182	0.051
Netherlands	(Fl)	18.35	3.490	3.065	0.892	0.371	914.7	1	3.906	91.14	74.27	4.209	0.755	0.366	0.785	0.574	56.56	0.469
Norway	(NKr)	46.98	8.937	7.847	2.284	0.950	2342	2.560	10	233.4	190.2	10.78	1.934	0.937	2.009	1.470	144.8	1.200
Portugal	(Es)	20.13	3.830	3.363	0.979	0.407	1004	1.097	4.285	100.	81.49	4.618	0.829	0.402	0.861	0.630	62.05	0.514
Spain	(Pta)	24.71	4.700	4.127	1.201	0.500	1232	1.346	5.259	122.7	100.	5.668	1.017	0.493	1.057	0.773	76.15	0.631
Sweden	(SKr)	43.59	8.292	7.281	2.119	0.882	2173	2.376	9.278	216.5	176.4	10	1.795	0.870	1.864	1.364	134.3	1.113
Switzerland	(SFr)	24.29	4.620	4.057	1.181	0.491	1211	1.324	5.170	120.6	98.30	5.572	1	0.484	1.039	0.760	74.85	0.620
UK	(£)	50.13	9.536	8.373	2.437	1.014	2499	2.732	10.67	249.0	202.9	11.50	2.064	1	2.144	1.569	154.5	1.280
Canada	(C$)	23.38	4.448	3.905	1.137	0.473	1166	1.274	4.977	116.1	94.64	5.364	0.963	0.466	1	0.732	72.06	0.597
US	($)	31.95	6.078	5.337	1.553	0.646	1593	1.741	6.801	158.7	129.3	7.330	1.315	0.637	1.366	1	98.47	0.816
Japan	(Y)	32.45	6.172	5.419	1.577	0.656	1617	1.768	6.906	161.2	131.3	7.443	1.336	0.647	1.388	1.016	100.	0.828
Ecu		39.16	7.450	6.541	1.904	0.792	1952	2.134	8.336	194.5	158.5	8.984	1.613	0.781	1.675	1.226	120.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6459	0.6430	-0.0030	0.6459	0.6415	23,335	91,815
Mar	0.6450	0.6443	-0.0031	0.6467	0.6434	1,068	7,859
Jun	-	0.6466	-0.0031	0.6470	0.6465	48	1,333

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7686	0.7587	-0.0104	0.7686	0.7582	15,330	52,177
Mar	0.7700	0.7623	-0.0104	0.7700	0.7620	283	2,997
Jun	-	0.7670	-0.0103	0.7716	0.7660	23	284

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.0204	1.0173	-0.0034	1.0206	1.0159	14,032	73,837
Mar	1.0286	1.0262	-0.0034	1.0294	1.0248	659	9,163
Jun	-	1.0373	-0.0034	1.0390	1.0390	68	616

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5716	1.5666	-0.0056	1.5728	1.5650	11,498	47,361
Mar	1.5720	1.5666	-0.0056	1.5730	1.5640	118	945
Jun	-	1.5660	-0.0054	1.5724	1.5660	4	20

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.525	4.45	4.86	5.28	0.16	0.60	1.03
1.550	2.49	3.08	3.63	0.63	1.30	1.84
1.575	1.07	1.79	2.37	1.71	2.43	2.95
1.600	0.35	0.92	1.44	3.43	3.99	4.48
1.625	0.07	0.41	0.81	5.63	5.96	6.32
1.650	-	0.15	0.42	7.98	8.12	8.34

Previous day's vol., Calls 3,708 Puts 8,422 . Prev. day's open int., Calls 387,197 Puts 336,177

Pound in New York

Nov 18	Close	Prev. close
£ spot	1.5660	1.5718
1 mth	1.5660	1.5715
3 mth	1.5661	1.5718
1 yr	1.5633	1.5686

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Nov 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅛ - 3½	5⅛ - 4⅞	5⅝ - 5⅜	6 - 6¼	6½ - 6⅜	7¼ - 7⅛
Sterling CDs	-	-	5½ - 5⅜	5⅞ - 6⅞	6⅜ - 6¼	7⅛ - 7
Treasury Bills	-	-	5⅞ - 5⅜	5⅞ - 5¾	-	-
Bank Bills	-	-	5⅞ - 5⅜	5⅞ - 5⅞	6⅜ - 6⅛	-
Local authority deps.	4⅞ - 4⅝	5⅛ - 4⅞	5⅝ - 5⅜	6 - 5⅞	6⅞ - 6⅝	7⅜ - 7⅛
Discount Market deps	4¾ - 4	5⅛ - 5	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ¾pc.
Ave. tender rate of discount 5.6236pc. ECGD fixed rate Stg. Export Finance. Make up day Oct 31, 1994. Agreed rate for period Nov 26, 1994 to Dec 25, 1994, Schemes II & III 7.23pc. Reference rate for period Oct 1, 1994 to Oct 31, 1994, Schemes IV & V 5.969pc. Finance House Base Rate 6pc from Nov 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Nov 18	Nov 11		Nov 18	Nov 11
Bills on offer	£350m	£350m	Top accepted rate	5.6555%	5.6755%
Total of applications	£1358m	£1310m	Ave. rate of discount	5.6236%	5.6468%
Total allocated	£350m	£350m	Average yield	5.7036%	5.7272%
Min. accepted bid	£98.590	£98.585	Offer at next tender	£350m	£350m
Allotment at min. level	55%	50%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday November 16, 1994 £	Increase or decrease for week £
Liabilities		
Capital	14,553,000	
Public deposits	1,081,001,528	-33,034,919
Bankers deposits	1,637,735,577	-82,116,794
Reserve and other accounts	3,057,871,674	-580,014,640
	5,791,161,779	-695,166,353
Assets		
Government securities	1,044,154,789	+5,730,000
Advance and other accounts	3,359,845,119	-1,641,529,596
Premise, equipment and other secs	1,379,273,161	-939,582,180
Notes	7,730,498	+1,072,193
Coin	158,212	-21,130
	5,791,161,779	-695,166,353
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,242,269,502	+38,927,807
Notes in Banking Department	7,730,498	+1,072,193
	18,250,000,000	+40,000,000
Assets		
Other Government securities	11,061,685,444	+1,456,935,613
Other Securities	7,188,314,556	-1,416,935,613
	18,250,000,000	+40,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	* Roxburghe Bank Ltd is no longer authorised as a banking institution.	8
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	* Mount Banking	6		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

● Members of London Investment Banking Association
* In administration

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 5pc 1994‡‡	100⅛xd	-	1,800	My17 Nv17	11.10	1345
12pc 1995	101⅛	-.2	2,350	Ja25 Jy25	20.9	1294
Exch 3pc Gas 1990-95	98¼	-	214	My1 Nv1	28.9	1271
10¼pc 1995	102⅞	-	2,500	Ja21 Jy21	14.6	1254
Funding 3½pc 1999-4	74⅛	1.3	543	Ja14 Jy14	7.6	1274
Conversion 9½pc 2004	105⅝	0.9	3,412	Ap25 Oc25	19.9	1246
Treas 6¾pc 2004‡‡	88⅛xd	0.9	8,500	My26 Nv26	20.10	4490
8½pc 2005	98⅝	1.0	2,400	Je7 De7	-	-
Conv 9½pc 2005	106⅛	1.0	4,842	Ap18 Oc18	12.9	1247
Index-Linked						
2pc '96 (67.9)	200⅞	0.4	1,200	Mr16 Se16	10.8	1313
4⅝pc '98‡‡ (135.6)	107⅛	0.2	800	Ap27 Oc27	20.9	-
2½pc '01 (78.3)	166⅛	0.3	1,500	Mr24 Se24	16.8	1316
2½pc '03 (78.8)	162⅛	0.3	1,300	My20 Nv20	17.10	1317
4⅜pc '04‡‡ (135.6)	108½	0.4	1,000	Ap21 Oc21	14.9	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

FT GOLD MINES INDEX

	Nov 18	% chg since 31/12/93	Nov 17	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	2019.18	-9.5	2048.74	49.23	100.00	2.14	2367.49	1782.02
Regional Indices								
Africa (16)	3301.54	-0.1	3344.21	16.98	34.49	4.15	3711.87	2304.45
Australasia (7)	2647.41	-0.7	2651.42	6.58	13.36	1.50	3013.89	2171.68
North America (11)	1544.96	-17.0	1575.99	25.68	52.15	0.67	2039.65	1468.11

Copyright, The Financial Times Limited 1994.
Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Predecessor Gold Mines Index: Nov 18 ; 256.8; week's change -0.3 points; Year ago: 245.3

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	0.82	6½	4	APTA Wnts.	5		-	-	-	-
-	F.P.	17.4	88	70	Abtrust Latin Am	87		-	-	-	-
-	F.P.	2.08	83	51	Do Warrants	52		-	-	-	-
-	F.P.	11.2	187	180	¥Adare Prntg	186	-1	Q26%	8.1	1.4	10.9
100	F.P.	68.8	93	85½	BZW Commodities	88		-	-	-	-
-	F.P.	6.10	47	39	Do. Wrts	39		-	-	-	-
-	F.P.	53.4	104	65	¥Caffuna	99	-1	-	-	-	-
280	F.P.	30.3	287	280	Churchill China	285		RN9.86	2.2	4.3	13.0
63	F.P.	12.1	68	65	Ennemix	68		RN0.71	5.3	1.4	8.2
-	F.P.	491.0	495	491	Fidelity Spec Units	491		-	-	-	-
-	F.P.	70.5	168	108	Filtronic C'tek	168	+11	RN0.75	2.6	0.5	56.5
100	F.P.	11.1	101	100	Finsbury Smlr C	101		-	-	-	-
100	F.P.	116.2	102	101	For & Col Emrg C	101		-	-	-	-
-	F.P.	1.91	35	22	Group Dv Cap Wts	23		-	-	-	-
-	F.P.	26.0	62	56	Hambros Sm Asian	58		-	-	-	-
-	F.P.	2.70	30	27	Do Warrants	27		-	-	-	-
100	F.P.	30.3	102	98	Hoare Govett 1000	101		-	-	-	-
-	F.P.	29.7	100	90	INVESCO Korea C	99		-	-	-	-
180	F.P.	167.5	223	205	Irish Permanent	220		uN9.0	2.9	5.5	7.7
215	F.P.	69.0	232	229	JJB Sports	230		RN6.0	2.4	3.3	14.1
-	F.P.	50.2	493	475	Prolific Inc A/L	495	-1	-	-	-	-
135	F.P.	62.3	155	136	Servisair	155	+6	RN3.8	1.3	3.1	25.1
115	F.P.	224.4	126	117	TLG	126		WN3.5	2.0	3.5	18.1
170	F.P.	19.8	173	168	Tele-Cine Cell	168		RN5.44	2.2	4.0	11.6
-	F.P.	8.01	62	57	Whitchurch	60		RN1.25	3.0	2.8	12.5

RIGHTS OFFERS

[illegible]

LEGAL NOTICES

[illegible]

Sweden

FT Surveys

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

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حكمة من الأجيال

FT MANAGED FUNDS SERVICE

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Credis Investment Funds - Contd.

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

CMI Insurance Co Ltd - Contd.

Sun Life International (IOM) Ltd

OTHER OFFSHORE FUNDS

The Environmental Investment Co Ltd

Ermitage Group

Jardine Fleming Unit Trusts Ltd - Contd.

Pactual

Pakistan Fund

Panther Capital Advisors

Pequot International Fund Inc

Carl Spaengler KAG

Springfield Fund Mgmt (Gibraltar) Ltd

Sri Lanka Growth Fund

State Street Banque SA

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BANKS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	£22½	0.7	Q31%	ф	Sep May	6'93	–
ANZ A$		180	2.3	Q20c	0.7	Jan Jul	8.12	–
Abbey National	†N□	419½	0.7	15.5	2.1	May Oct	15.8	6411
Allied Irish I£	♣†N□	261	1.2	Q9¼%	2.7	Oct May	15.8	1354
Anglo Irish I£	N□	55	5.8	Q17.9%	1.7	Jan Jul	6.6	1355
Asahi Y	□	693	0.9	Q14%	ф	Jan Dec	12'92	3048
Banco Bil Viz Pta	□	£16⅞	6.0	Q27.2%	2.7	JyOcJaAp	7'93	–
Banco Sant Pta		£27⅝	–	Q38%	2.0	[illegible]	1.8	–
Bk Ireland I£	♣†N□	232	3.5	Q14.7%	3.2	Jan Jul	16.5	1360
Bank Scotland	♣†N□	214xd	3.1	5.31	3.3	Jul Dec	17.10	1742
9¼pc Pf		105¼xd	0.9	9¼%	–	May Nov	17.10	1462
9⅜pc Pf		123½xd	1.1	9⅜%	–	May Nov	17.10	1685
Barclays	♣†N□	603	-.6	16.65	1.9	Oct May	15.8	1754
Dai Ichi Kan Y	□	£11	1.5	Q18%	1.2	Jan Dec	9'95	–
Deutsche DM	□	£305⅛	0.6	Q35%	–	May	5'93	–
Espirito Santo	□	£9⅛	0.2	Q80c	5.2	Jan	6'93	5487
First Nat Fin	N□	66	-.8	1.5	–	Mar Aug	18.7	2571
6.3pc Cv Pf		72	1.4	6.3%	–	Jul Jan	6.6	2578
7pc Cv Pf		123	-1.6	7.0	–	Jul Jan	6.6	1408
Fuji Bank Y	□	1284	-1.1	Q17%	ф	Dec Jun	7'93	–
HSBC HK	†N□	755½xd	4.4	24.5	2.4	Nov Jun	5.9	2795
HSBC (75p Shs)	†N□	756½xd	4.9	24.5	2.4	Nov Jun	5.9	2776
Lloyds	†N□	555	4.8	23.0	2.1	Oct May	8.8	3171
Mitsubishi Y	□	£14¼	4.6	Q17%	ф	Jan Dec	12'92	–
Mits Tst & Bk Y	□	854	-1.4	Q16%	12.4	Jan Dec	12'92	–
Mitsui Tst & Bk Y	□	601¼	0.1	Q17%	5.5	Jan Dec	12'92	–
Nat Aust A$		516	3.4	Q74c	ф	Jan Jul	21.6	–
NatWest	†N□	531½	3.2	18.4	2.4	Oct May	8.8	3463
Ottomane FFr		£21¼	–	Q725%	ф	May	25.5	–
Ryl Bk Scotland	♣†N□	457	2.0	12.0	1.9	Feb Jul	16.5	3874
Sakura Y	□	65⅞	0.7	Q17%	3.0	Dec Jun	12'92	–
Sanwa Y	□	£12⅞	1.3	Q16%	2.0	Jan Dec	12'92	–
Standard Chartd	†N□	264	2.8	6.37	4.2	Jun Oct	22.8	4694
7 3/8pc Pf		88¾	0.9	7.37	–	Apr Oct	22.8	1719
Sumitomo Y	□	£11⅞	1.0	Q17%	8.7	Jan Dec	12'92	–
Sumitomo Tst Y	□	615	3.3	Q17%	ф	Jan Dec	12'92	–

CHEMICALS

ELECTRONIC & ELECTRICAL EQPT - Cont.

EXTRACTIVE INDUSTRIES - Cont.

HEALTH CARE - Cont.

INVESTMENT TRUSTS - Cont.

HOUSEHOLD GOODS

BREWERIES

DISTRIBUTORS

INSURANCE

ENGINEERING

BUILDING & CONSTRUCTION

INVESTMENT TRUSTS

DIVERSIFIED INDUSTRIALS

FOOD MANUFACTURERS

BUILDING MATS. & MERCHANTS

ELECTRICITY

GAS DISTRIBUTION

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING, VEHICLES

HEALTH CARE

EXTRACTIVE INDUSTRIES

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		832	7.9	Q375c	1.9	Oct Apr	3'93	–
Barlow	&	£5¼	6.1	Q56c	ϕ	Jan Jul	20.6	–
Gold Flds Prop R		116xa	—	Q59c	ϕ	Feb Sep	31.1	–
NK Props.		98	3.2	Q87.1c	–	Feb Sep	10'93	–
SASOL	♥	534	2.1	Q78c	–	Oct	9'93	–
SA Brews	†	£15¼	1.0	Q163c	2.2	Jan Dec	30.5	–
Tiger Oats		713	2.1	Q85c	ϕ	Jan Jul	6.6	–
Tongaat-Hulett	†h	725	7.4	Q80c	2.4	Feb Aug	4.1	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses *but including estimated extent of offsettable ACT. Market Capitalisations are* published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ *Indicates the most actively traded stocks. This includes UK stocks* where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † *Interim since increased or resumed*
- ‡ Interim since reduced, passed or deferred
- ϕ *Figures or report awaited*
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- & Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings" P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1295 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Kenor (Extr Inds) and Games Workshop (Retlrs Gen). Deletions: Scholes (Elctn & Elct Eqpt), Chemex Int'l (Other Servs & Bus) and Reject Shop (Retlrs Gen).

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Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close November 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	12⅛	AAR	0.48	3.8	21	193	12¾	12¼	12½	+⅛
18⅛	12⅝	A L Labs A	0.18	1.0	40	28	17¾	17½	17⅝	-⅛
79⅞	57⅝	AMP	1.68	2.3	22	3304	72¾	71⅞	72⅛	-⅜
72¾	48⅛	AMR			108	3380	51½	50½	50⅞	-⅛
5	3⅜	ARX			12	95	3⅞	3¾	3¾	
56⅛	38⅝	ASA x	2.00	4.3	30	517	46⅞	45⅞	46¾	+1½
33	25⅜	AbbtL	0.76	2.3	17	8922	32⅞	32¼	32⅜	-½
15¼	11⅜	AbitibiPr	0.50	3.9	11	116	12⅞	12⅞	12⅞	
23⅝	17¾	ABM Ind	0.52	2.5	12	12	20⅝	20½	20½	
18	11⅛	Acptncain			10	109	14¼	13⅞	13⅞	-⅜
31	22	ACE Ltd	0.44	1.9	22	91	23⅝	23	23	-¼
12½	9	ACM Gvt In x	1.08	12.2	7	1981	9¼	d9	9	-⅛
10⅛	6⅞	ACM GvOpp x	0.80	10.8		396	7⅜	7⅛	7⅜	+⅛
10⅝	6¼	ACM Gvt Sp x	0.96	13.7		513	7	6⅞	7	
12	7⅝	ACM Gvt Sc x	1.09	13.5		285	8⅛	8	8⅛	+⅛
11¾	7⅜	ACM Man x	1.08	13.1		281	8¼	8⅛	8¼	+⅛
9¼	8	ACM Managd x	0.72	8.7		140	8¼	8⅛	8¼	
15½	8¾	AcmeClv	0.44	3.8	23	42	11⅞	11⅝	11⅝	-⅛
13⅜	6½	Acme Elect			13	593	13½	12⅛	13⅛	+1⅛
28¾	23	Acordia	0.60	2.1	14	27	u28⅞	28⅝	28⅞	+¼
13¾	5¾	Acclaim	0.36	3.8	2	211	9⅝	9⅜	9⅜	-⅛
18⅜	11¼	Acuson			27	1583	17½	16¾	16¾	-½
18⅜	15⅞	Adams Expr x	0.68	4.2	0	129	16⅛	16⅛	16⅛	
64	46½	Ad Micro	3.00	5.5		14	54¾	54⅛	54¾	+1
31¾	16¾	AdvMic	3.00	11.9	8	7352	25¼	24⅝	25¼	+⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A -

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Continued on next page

حكزامن الأحيل

4 pm close November 18

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close November 18

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	15	31	14	13¾	13¾	-⅛
ACC Corp	0.12	12	203	17	16	16	-⅛
Acclaim E		16	4333	16¾	16	16½	+⅜
Acme Mtrs		6	61	16¾	d16¼	16¾	+⅛
Acxiom Cp		31	1053	27½	26⅝	26⅞	-½
Adaptech		17	3373	23½	22¼	23	
ADC Tele		34	1412	48	46½	46¾	-⅞
Addington		5	130	9¼	8¾	8¾	-½
Adia Serv x	0.16	[illegible]	25	35¾	35¼	35¼	-¼
Adobe Sys	0.20	35	6253	35¼	33½	34⅝	+⅛
Advance C		9	205	12⅝	12½	12½	-⅛
Adv Logic		158	119	5	4¾	4¾	
Adv Polym		7	200	5¼	5	5	-¼
AdvTchLab		23	2214	u17¾	16¾	17½	-⅛
Advanta	0.27	10	698	26¼	25¼	26	-⅛
Affymax		13	142	16¾	16¼	16¼	-⅞
AgnicoEa	0.10	34	656	11¾	11⅛	11½	-⅜
AirExpr	0.16	15	366	23¾	23½	23⅝	-⅛
Akzo ADR	1.51	14	205	57	56½	56¾	-¼
Aldila x	0.80	14	323	23½	23	23	+¼
Allegh &W		10	20	10 65	10 65	10 65	
Allen Org x	0.52	12	2106	35	35	35	-1⅜
Alton Ph		4	505	7¾	7½	7⅝	+¼
AlliaCapM	1.00	13	505	15	14¾	14⅝	+⅛
Allia Cap	0.21	12	95	13½	13	13½	+½
Aloette C	0.12	16	220	2¾	2¾	2¾	+¾
Alta Gold	0.16	65	502	1⅜	1⅛	1⅜	-⅛

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Delchamps	0.44	12	3	17¾	d17	17¾	
Dell Comp		26	12036	46½	44⅝	46⅜	+1⅜
Deltaply	0.30	27	607	31½	30½	31½	+⅜
Dep Gty	1.12	7	193	29½	27¾	27¾	-1¼
Devcon	0.20	9	4	3¼	2¼	8¼	
DH Tech		15	39	24½	24¼	24¾	-⅜
Diebold B	0.80	18	2358	20¾	20¼	22⅝	+½
Digi Intl		16	1504	17¾	17	17½	+¼
Dig Micro		9	1500	16	14¾	15⅜	-¼
Dig Sound		34	537	2⅞	2⅝	2¾	-⅛
Dig Sys		25	1203	12⅞	12¼	12⅞	+¼
Dionex Cp		16	107	37¾	36½	37¼	
Dixie Ym	0.20	33	237	7¼	6⅞	7	+⅛
DNA Plant		1	702	3½	3¼	3⅜	-⅜
Dollar Gn	0.20	29	2225	u30¼	29¼	30	+¾
Dorch Htn	0.68	18	25	13¼	12¾	13¼	
DrecoEngy		3	29	8½	8¼	9¼	-½
DressBarn		15	1025	11½	10¾	11	+⅛
Drey GD	0.24	106	435	25½	24¾	25½	+¾
Drug Empo	0.08	42	533	5¼	5	5½	
DS Bancor	1.09	11	155	23¾	22½	22¾	-¼
Duriron	0.42	18	146	18	17¾	18	+¼
Dynatech		11	27	25	23½	23	+¼

AMEX COMPOSITE PRICES

4 pm close November 18

FT GUIDE TO THE WEEK

21 MONDAY

UN targets organised crime

Ministers and senior officials from the world's justice and interior ministries attend the first United Nations World Ministerial Conference on Organised Transnational Crime in Naples (to Nov 23). They will attempt to forge a more coherent global strategy to combat the increasing threat.

UN secretary-general Boutros Boutros Ghali, Italian prime minister Silvio Berlusconi and president Oscar Luigi Scalfaro will be present. See People.

Opec meeting: Saudi Arabia is to ask the Organisation of Petroleum Exporting Countries to extend the current production ceiling of 24.52m barrels of oil a day for the whole of 1995 to underpin soft oil prices.

Ministers from the 12 Opec members are in Bali, Indonesia, to discuss production levels (until Nov 23). Other Opec ministers want a roll-over, but some may favour three or six months. Iran says it will consider all options.

European Union transport ministers begin a two-day meeting, and are expected to agree on a series of measures to tighten up safety at sea. They will also be looking at the list of big trans-European infrastructure projects in road, rail and air transport which are on the agenda of EU leaders at next month's Essen summit.

Reform of the World Bank and the International Monetary Fund is the subject of a conference in Washington which will bring together parliamentarians from 18 nations.

Speakers will include Larry Summers, Treasury undersecretary, and Stanley Fischer, first deputy managing director at the IMF. Massachusetts congressman Barney Frank, who called the conference, hopes influential parliamentarians will agree to push for an end to secrecy in the multilateral banks and for linkages between bank loans and environment and labour practices.

Railtrack sell-off:

Brian Mawhinney (left), Britain's secretary of state for transport, is scheduled to announce the multi-billion pound sell-off of Railtrack, the body that owns the UK's railway track and stations. New legislation is not required to privatise Railtrack because the powers are already enshrined in law. But Labour will launch a fierce attack on the plan, particularly because a minister promised during the passage of the Railways Bill – which privatised train services – that Railtrack would stay in the public sector "for the foreseeable future".

FT Surveys: Germany and World Nuclear Industry.

22 TUESDAY

Kuchma meets Clinton

Ukrainian president, Leonid Kuchma (left), begins a state visit in the US. He meets President Bill Clinton, other senior US officials, and Michel Camdessus, IMF director. With new economic reforms on course and the nuclear Non-Proliferation Treaty ratified last week, Mr Kuchma expects a warm welcome from Mr Clinton. He will ask for continued US support to soften the blow of economic reform, ease nuclear disarmament and promote foreign investment.

Mr Kuchma will present a new plan to shut down the Chernobyl nuclear power station. Ukraine will seek western financing of $6.49bn (£3.95bn) to fund projects including the decommissioning of Chernobyl and the building of two western-type units on its site. In turn, Ukraine would cover up to $6bn in other costs associated with shutting down Chernobyl.

Finland's president Martti Ahtisaari starts an official visit to Germany (to Nov 25).

Greek cotton scandal:

European Commission officials hold talks in Athens with Greece's agriculture ministry on cleaning up cotton farming. Greece is being asked to repay up to Ecu120m ($100m) and accept regular EU checks on its cotton gins in order to prevent a repetition of what local newspapers call the Great Cotton Scandal of 1991-92. Cotton production figures were allegedly inflated by about 10 per cent that year so that growers could claim extra subsidies.

Boxing boycott: The Mexico City-based World Boxing Council begins a boycott of all world title fights in California for four months. The move is in protest at a recent state initiative that would bar public aid to illegal immigrants. Mexicans are expected to be hit most by Proposition 187, which will affects state health, education and other social services.

Meanwhile, enforcement of the measure has been temporarily blocked by a judge in Los Angeles on the ground that it may be unconstitutional.

The Institute of Directors holds its annual dinner at Grosvenor House, London.

Holidays: Lebanon (Independence Day).

23 WEDNESDAY

Countdown to WTO

The preparatory committee of the World Trade Organisation meets in Geneva to take stock two weeks ahead of the implementation conference that is due to set a January 1 starting date for the WTO and the Uruguay Round global trade accords. However, nothing will be decided until after next week's crucial votes in the US Congress on Uruguay Round ratification (Nov 29 and Dec 2).

South Korea and China are due to sign a memorandum of understanding in Beijing on the possible construction of two South Korean-model light-water nuclear reactors in China. The two countries also plan to sign a protocol on co-operation in nuclear safety matters. If the project goes ahead, it will be the first time South Korea has built nuclear reactors for China, North Korea's last remaining ally.

German economy: Revised official tax estimates will be published which German finance minister Theo Waigel hopes will show that he will need up to DM10bn ($6.7bn) less than the DM69bn he expected to borrow to round off this year's budget.

European Union fisheries ministers will try to agree terms for the full integration of Spain and Portugal into the Common Fisheries Policy. Madrid and Lisbon made full CFP rights by next year a condition of their approval of fish-rich Norway joining, along with Austria, Finland and Sweden.

US economy: Durable goods figures for October should show a modest rise. Although volatile transport orders have caused this indicator to fluctuate in past months, analysts say a recent survey of purchasing managers indicates a rise of about 0.5 per cent.

Animal health: The UK parliament's agriculture select committee of MPs publishes the findings of its inquiry into the effectiveness of health controls introduced for the traffic of live animals in the European single market. The report will also consider the UK's anti-rabies quarantine arrangements for domestic pets.

National Tree Week:

Britain commences a nation-wide festival of trees organised by the Tree Council (to Dec 4). It aims to highlight the importance of trees in the environment and to promote tree-planting and good management.

FT Surveys: Mexico.

Holidays: Japan (Labour Thanksgiving Day).

Britain's national lottery enters its second week with chancellor Kenneth Clarke pocketing millions

24 THURSDAY

Channel tunnel rail link

Draft legislation for a £2.7bn ($4.4bn) rail link between the Channel tunnel and London is due before the UK parliament. The link should cut 30 minutes from the three-hour journey between London and Paris. Work is due to start in early 1997 and end in 2003. The designated route passes under the river Thames near Gravesend to enter London from the east via Stratford.

Turkey's foreign minister Mümtaz Soysal travels to Bonn for meetings with his German counterpart Klaus Kinkel. Germany occupies the rotating presidency of the European Union and Turkey's fraught negotiations over customs union with the EU, due to come into force on January 1, 1996, are likely to feature high on the agenda.

French economy: The recovery should be confirmed in gross domestic product figures for the third quarter. Economists expect a rise of about 0.8 per cent, reflecting improved industrial production and consumption and strong performance by exporters.

Saleroom: A blue teddy bear called Emil, bought two years ago in a German flea market for the equivalent of £1.50, is expected to set a record price for a teddy at an auction of toys and dolls by Sotheby's in London. The record is £55,000.

FT Surveys: Italian Banking and Finance.

Holidays: US (Thanksgiving Day).

25 FRIDAY

Last data before Budget

The Confederation of British Industry's monthly survey of UK manfacturing trends will be about the last piece of UK economic news before Kenneth Clarke's second Budget on November 29. Although recent CBI surveys have been bullish in tone, analysts would not be surprised to see signs of some slowdown in future growth of manufacturing output.

Ro-Ro ferry design: Britain's Royal Institution of Naval Architects sponsors a one-day symposium in London on recent research into the survivability of roll-on roll-off ferries, following the *Estonia* ferry disaster in September which killed more than 900. The institution believes the open car deck system of Ro-Ro ships cannot be justified. It has called for changes to ferry design to allow passengers and crew more time to disembark in the event of a sinking.

Betty Maxwell, widow of disgraced British tycoon Robert Maxwell, publishes her book about their marriage, A Mind of My Own.

In September, two Labour MPs failed to persuade Sir Nicholas Lyell, the attorney-general, to block publication of the book on the grounds that it could prejudice the forthcoming trials of Robert Maxwell's sons, Ian and Kevin.

Cricket: The first of five Test matches between Australia and England begins in Brisbane. England hope to bring back the Ashes when the tour ends in February.

26-27 WEEKEND

Uruguay elects a president

On Sunday, Uruguayans indulge in a frenzy of voting, electing a president as well as both chambers of congress and 19 governors. Of the 21 presidential candidates there are four front runners – two from the governing Blanco party, one from the opposition Colorados and one from the Encuentro Progresista, a broad left-wing coalition.

The elections will determine whether Uruguay pushes ahead with the free-market reforms initiated by current Blanco president, Luis Alberto Lacalle.

Rugby: Wales play South Africa in Cardiff on Saturday.

Argentina's two main opposition parties, the Radicals and the Frente Grande coalition, on Sunday nominate who will challenge Carlos Menem in next May's presidential elections. One of the two Radical pre-candidates is considering an electoral pact with the Frente Grande, a tactic that might force May's elections to a second round.

Voting starts in Norway on Sunday in a national referendum on European Union membership.

Norway is the last of the four countries due to join the EU next year to hold a referendum on its accession treaty. Getting a Yes from Norway's sceptical voters, who narrowly rejected membership in 1972, is considered the hardest challenge.

Compiled by Patrick Stiles and Ian Holdsworth. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: If the City consensus is any guide, Britain's trade deficit with non-European Union countries in October should be barely changed from September's £349m shortfall. However, the £350m average forecast reflects estimated deficits ranging from £200m to £500m, leaving room for surprises.

In Italy, provisional November figures are expected to show subdued consumer price inflation of 3.7 per cent, increasing prospects that the annual rate will fall below 3.5 per cent early in 1995.

Thursday: The Bundesbank council is expected to leave credit policy unchanged when it meets in Frankfurt.

During the week: German money supply growth, as measured by annualised and seasonally adjusted M3 based on last year's fourth quarter, is expected to slow in October to 7.3 per cent from September's 7.8 per cent.

German federal states will be reporting November cost of living indices. Preliminary returns for western Germany are expected to show a slight weakening of the year-on-year inflation rate to 2.7 per cent this month from 2.8 per cent in October.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Sep personal consump'n expend	-0.3%	-0.4%
Nov 21	UK	Oct trade, ex EU	-£350m	-£349m
	Italy	Nov cities consumer price indx*	0.4%	0.5%
	Italy	Nov cities consumer price indx**	3.7%	3.7%
	Denmark	Oct consumer price indx*	0.3%	0.1%
	Denmark	Oct consumer price indx**	2.1%	2%
	Canada	Sep wholesale trade†*	1%	1.4%
Tues	US	Oct Treasury Budget	-$35bn	$4bn
Nov 22	US	Johnson Redbook, w/e Nov 19	-	-2.7%
	Japan	Sep coincident indx	60%	90%
	Japan	Sep leading diffusion indx	54.5%	100%
	France	Oct consumer price indx final*	-	0.25%
	France	Oct consumer price indx final**	-	1.65%
	Canada	Oct consumer price indx, all items*	0.2%	0.1%
	Canada	Oct consumer price indx, all items**	0.3%	0.2%
	Canada	Oct consumer price indx, ex fd/en**	0.1%	-0.1%
	Sweden	Sep industrial prod†**	8.8%	8.4%
Wed	US	Oct durable orders	0.5%	0.1%
Nov 23	US	Oct durable shipments	-	-0.7%
	France	Sep industrial prod†*	0.3%	2.3%
	Sweden	Sep current account	SKr0.3bn	-Skr4.4bn
	Aust'lia	Oct motor vehicle regs†	3.5%	0.1%
Thur	France	3rd qtr gross domestic prod prelim	0.8%	1%
Nov 24	France	Oct house consumption†*	0.3%	-0.7%
	Canada	Sep Int'l securities transactions	C$2.1bn	C$1.9bn
	Aust'lia	3rd qtr stocks, real†	-	0.9%
Fri	US	M1, w/e Nov 14	$1bn	-$1.4bn
Nov 25	US	M2, w/e Nov 14	$3bn	$0.5bn
	US	M3, w/e Nov 14	$4.8bn	-$0.4bn
	US	Oct existing home sales	-	3.97m
	Japan	Nov consumer price indx, Tokyo**	1.2%	0.8%
	Japan	Nov consumer price indx, ex pe'sh**	0.6%	0.5%
	Japan	Nov consumer price indx, nation**	0.9%	0.2%
	Japan	Nov consumer price indx, ex pe'sh**	0.6%	0.6%
	UK	Nov CBI trends survey	-	n/a
	Canada	Oct industrial prod price indx*	0.2%	-0.2%
	NZ	Oct trade balance	-	-NZ$152m
During the week...				
	Japan	Nov trade balance, 1st 10 days	-	$4bn
	Germany	Sep trade balance	DM6bn	DM7.1bn
	Germany	Sep current account	-DM4.1bn	-DM6.5bn
	Germany	Oct import prices*	0.1%	0.3%
	Germany	Oct import prices**	1.9%	1.9%
	Germany	producer price index*	0.1%	-0.1%
	Germany	producer price index**	0.9%	0.7%
	Germany	Oct M3, from 4th qtr base	7.3%	7.8%
	Germany	Oct priv credit, 6-mth annualised	8.3%	8.5%
	Italy	Oct balance of payments	-	-L1.1trn
	Italy	Oct M2-3, monthly av'ge**	5%	5.2%

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

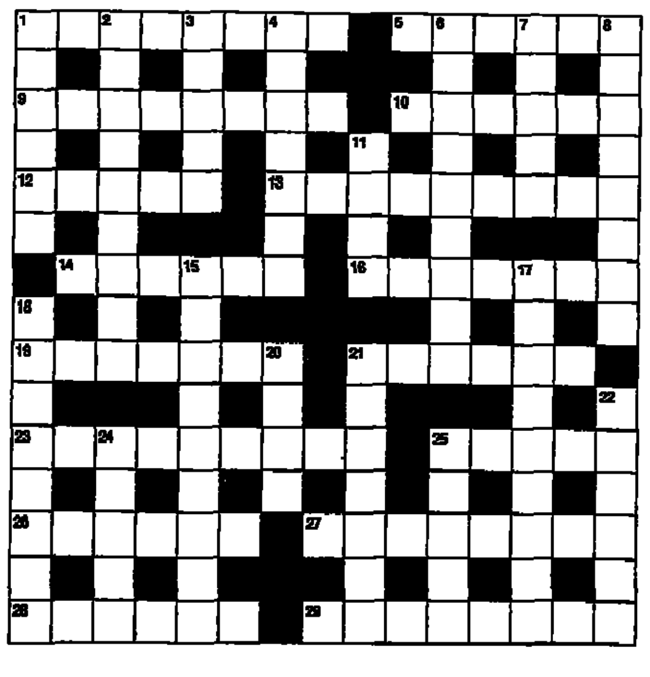
No.8,616 Set by CINEPHILE

ACROSS

1 Met with aggro, sadly, in conveyance (8)
5 Roman emperor's rule in bark (6)
9 On the 51st of February you retire from protection at sea (4,4)
10 Bird without bill in Poland (6)
12 Full of trite sentiment, not yet set aside? (5)
13 Ornithologist's catalogue? (4,5)
14 Remove from (bad pun!) sail (6)
16 Under a mountain peak heat is diffused (7)
19 Almost completely ready to fight when given warning (7)
21 Penultimate variety of spirit? (6)
23 The contents are bound to be nonsense without approval by spirit (9)
25 Arrived with round medallion (5)
26 Shelter for umpire to turn back for example (6)
27 A flower in its place, the first one (8)
28 Poison requires remedy – bring in heavy guns (6)
29 Minister reaches the 15th letter, or as far as the 14th (8)

DOWN

1 Ill-will to a degree and falsehood without number (6)
2 Free editor ran out of questions for the electorate (9)
3 To follow the godhead a place of worship is pointless – it's all talk (5)
4 Joke about browbeaten gardener's aid (4,3)
6 Land of Hope – melody ascends about anti-Catholic being beheaded (9)
7 Sheep must be firm during injection (5)
8 It sounds as though little Eleanor's bare of capital (3,5)
11 Climbing town needs food (4)
15 Psalm guru composed for tea? (4,5)
17 Sailor has some dominion over a student of the belly (9)
18 Savage, except with lawyers in charge (8)
20 Some editors retire to consider (4)
21 Cattle enthusiast a lot short (7)
22 Caribbean island to secure love (6)
24 The present queen gets away first (5)
25 Trainee acted badly (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 1, marked Monday Crossword 8,616 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 5.

Name..............................

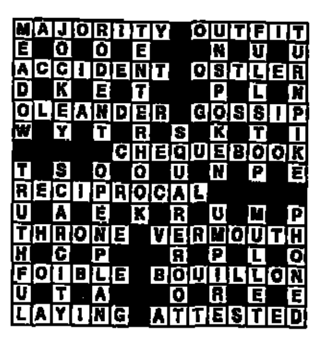
Address..............................

....

Winners 8,605

A. Carrie, Putney, London
B.R. & F.W. Newton, Ontario
A.G. Thompson, Leeds
Jeremy Fisher, Winchester
Jane Smith, Nottingham
R.T. Gallie, Hong Kong

Solution 8,604



FINANCIAL TIMES SURVEY

GERMANY

Monday November 21 1994

United Germany may be in for a spell of indecisive government. But that could culminate in a new political consensus, writes **Christopher Parkes**

In search of a new consensus

The last votes were barely counted in last month's narrow-squeak federal elections before the lobbying hordes – including Bundesbankers, industrialists and economists – lined up to swamp the returning government with advice on the contents of its agenda for the German Bundestag's 13th legislative period.

Even though the conservative/liberal coalition was coming back to power in a considerably weakened state, and promptly subjected to speculative attacks that it would not hold together through the four-year term, the lobbyists' demands remained as rigorous as ever.

Mr Klaus Murmann, president of the BDA employers' association called for nothing less than the restructuring of the DM1,000bn annual social welfare budget which was threatening to "crush us all".

The list presented by Mr Heinrich von Pierer, Siemens chairman, started with a call for budget consolidation, and closed with demands for political support for business plus coherent energy and telecommunications policies. Mr Hans Tietmeyer, Bundesbank president, said the government should not rely on the cyclical recovery in the economy to make good the nation's structural deficits.

Mr Edzard Reuter, chairman of Daimler-Benz, urged Chancellor Helmut Kohl to pluck up the courage to tell the population that he faced a "pile of unpopular tasks," including the need to cut spending.

Although the choice of items largely reflected the petitioners' peculiar political or business interests, they were also pointed reminders of crucial issues, still unresolved, from the previous government's agenda.

An immediate outcry against Mr Murmann, especially from his natural allies in the ranks of Mr Kohl's Christian Democrats and the Bavarian Christian Social Union, served as a warning that governing with a majority of 10 instead of 134 required rather more subtlety than Mr Murmann seemed to appreciate.

Despite Mr Kohl's claims of having a "perfectly good working majority," his hand has been significantly weakened by the shrinking of the coalition's Bundestag majority, the enfeeblement of the Free Democratic Party (FDP), the CDU's and CSU's liberal partners, and the consolidated supremacy of the Social Democrats in the Bundesrat or upper house.

The view across the wider political landscape has also been distorted by the gains of the Party of Democratic Socialism, successor to the East German communists, which took nearly 18 per cent of the vote in its home region despite being dubbed "fascists painted red" by Mr Kohl.

Against this background, observers believe the government must expect conflicts with the FDP which has effectively lost its roots in regional parliaments and has fewer seats than the Greens in the new Bundestag. Analysts say it must either raise its own liberal profile – at the risk of friction with its conservative partners – or lose its identity.

They also point to the danger of conflicts within the CDU from prominent members jockeying for the leadership as Mr Kohl approaches the expected end of his parliamentary career at the next elections.

Such considerations, they say, may lead to the paralysis of domestic policy-making. Rather than struggling with a strong opposition and a tiny majority to implement contentious legislation on welfare spending cuts, for example, the chancellor may prefer to turn his attention to his "historic" responsibilities in the foreign field, including the further development of the European Union. Mr Kohl intends to play a leading role in the EU intergovernmental conference in 1996, with the aim of giving new gravitas to his honorary if rather faded post-unification title of "Unity Chancellor".

The possibility of governmental neglect of domestic economic and fiscal affairs is further aggravated by mounting public confidence that after the short-sharp shock of recession, everything is coming quickly right again.

Trade unions are already agitating for "real" wage increases this year although the Bundesbank has warned that years of restraint are necessary if Germany's pay-to-productivity ratios are to be restored to internationally competitive levels.

Certainly, Germany is emerging with unexpected speed from the steepest slump since the war. Unemployment started falling far faster than is typical at the end of a cyclical recession.

Company profits are booming in many sectors. Business confidence is high – misleadingly high, according to the influential DIHT federal chamber of trade and industry.

A recent check on the mood among 25,000 of its members, in the form of its annual autumn confidence poll, concluded that while the recovery certainly reflected the inherent strengths of the economy, it was now tending to conceal the severity of the structural weaknesses exposed during the slump.

For example, although unemployment is down from its peak early in the year, a third of those without work have been jobless for more than 12 months and half have no vocational qualifications. Even the most stoutly conservative forecasters predict little substantive change in the labour market for at least 18 months. Only 9 per cent of the DIHT survey sample planned to take on staff, while 28 per cent said they were still cutting their payroll.

Companies also stress there are no grounds for euphoria over profits. In the engineering industry, for example, net return on sales this year is expected to be only 0.8 per cent compared with a negative rate of minus 0.7 per cent in 1993 and a "normal" level for the industry of 2.5 per cent, according to recent surveys by the Ifo economics institute in Munich.

But industry's main concern is that its efforts at restructuring in the past two years may be rendered fruitless if federal government and regional and local authorities fail to consolidate budgets and reduce the burden of taxation and welfare contributions on businesses and consumers.

Business leaders argue that unless the whole economy is subjected to a rigorous slimming cure – and the government accounts for half of GDP – they will be obliged to go through the entire restructuring process again when the next cyclical slump occurs.

At the heart of government's problems, and the single most important source of concern to the Bundesbank, is the burden placed on the future by mountainous public debts. The total is expected next year to exceed DM2,000bn for the first time. At an estimated DM2,150bn it will be more than twice as high as the national debt in 1990, the fateful year of unification.

Despite misgivings, the government has made progress, and this year launched a consolidation programme intended to cut some DM90bn from the federal budget by the end of 1996.

One result was that federal debt was not increased this year and the total public sector deficit fell slightly from 1993's record DM182bn. A more substantial decline, to less than DM130bn, is already programmed for next year.

Bonn has also made an effective start on reducing and simplifying corporate taxation, but the levy on retained profits is more than double that in the UK.

It has chipped at statutory payroll costs by reducing the charge for pensions insurance. But a new levy to cover the costs of care for the elderly, coming in next January, will cancel this out. More than 20 per cent of German wage costs are accounted for by statutory insurance and other "social state" benefit charges which are three times as high as in Britain.

As management has shown in industry there is no shortage of scope for economies and new ideas.

Most strikingly, it has demonstrated in the past two years, in which radical and painful changes have been introduced without any trace of industrial unrest, that in Germany it is still possible to build consensus and compromise in the most unpromising circumstances. Which gives grounds for optimism that it may be much to soon to be worrying about the onset of political paralysis.

Symbols of the new synthesis: a Communist-era mural in the city of Dresden overlooks the casino Picture: Tony Andrews

IN THIS SURVEY

Editorial production: Maurice Samuelson

Mr Kohl has triumphed again. But for how long, asks **Quentin Peel**

Chancellor of unification

Mr Helmut Kohl's narrow victory in the German elections, with a majority of just 10 seats for his conservative-liberal coalition, was a personal triumph for the German chancellor.

In less than nine months, he transformed a lame-duck administration, trailing several points behind its opponents in the polls, into a winner.

He did it very largely thanks to his own reputation and his own efforts. Yet his victory may prove to have been more Pyrrhic than real. Many are already speculating about how long the current coalition can last.

On the one hand, the very narrowness of the victory has done wonders in concentrating the minds of the coalition partners. The usually interminable negotiations between Mr Kohl's Christian Democratic Union (CDU), its Bavarian sister-party, the Christian Social Union (CSU), and their minority liberal partners, the Free Democratic Party (FDP), have been completed in record time.

Trouble might well have been expected from either of the small parties. The FDP, in particular, in spite of being decimated in the election, with a drop in support from 11 per cent in 1990 to under 7 per cent, nevertheless holds the balance of power in the Bundestag. It desperately needs to gain an independent profile. But Mr Klaus Kinkel, the party leader and foreign minister, went along with a strategy of papering over the cracks.

The CSU, now the second largest party in the coalition, might have held out for bigger and better jobs at the expense of the FDP. But Mr Theo Waigel, the CSU leader and finance minister, also played it cool.

They all agree on the broad outline of government priorities, on the need to cut back public spending from the present 51 per cent of gross national product, to reduce the budget deficit within the guidelines of the Maastricht treaty.

All this must be done while continuing to finance the burden of German unification, requiring massive public transfers to restructure the east German economy, to pay for the continuing high unemployment, finance the local government administration which still lacks any reliable tax base, and pay for large-scale investment in all forms of infrastructure.

As for foreign policy, it is also broadly agreed, with a strategy of enlarging the European Union to the east linked with further clear steps to greater integration in the west.

On the other hand, the difficulties will lie in the detail, in the tactics, rather than the strategy. Precise details of the promised reforms of corporate taxation, of social spending cuts, and of measures to combat rising crime and illegal immigration, could all upset the apple-cart. Foreign policy, too, may not be as straightforward as it looks, with differences between the parties on the pace of opening to the east, and on European integration.

The problems for Mr Kohl certainly look fairly daunting. In the first place, he heads a tired team, urgently in need of fresh blood, but with little available to revive it. His new cabinet looks depressingly like the old one. Mr Kinkel has emerged from the election campaign looking like a loser, and may indeed be replaced by his party next year, if it can find an alternative. Mr Waigel has also failed to stamp his authority on his own party, having failed to become prime minister in Bavaria last year. Remaining in Bonn is obviously his second choice. Both return to the cabinet with their former jobs.

The brightest lights in the government are relatively junior. : in the CDU, Mr Matthias Wissmann, hitherto transport minister and before that briefly research minister, has shown himself competent and an effective communicator. In the CSU, Mr Horst Seehofer, as health minister, was also one of the success stories of the previous administration. The freshest new face is that of 28-year-old Ms CLaudia Nolte, who has shot straight into the cabinet as minister for women, youth, families and the elderly, combining two former ministries. Overall, there will be 17 ministers, two fewer than before. Chancellor Kohl has compounded his personnel problems by giving intimations of his own mortality: he let it be known during the election campaign that he would not stand again in 1998. That seems certain to unleash a debilitating succession struggle in the not-too-distant future, unless he goes back on his word.

In his own party, his natural successor, Mr Wolfgang Schäuble, the CDU parliamentary leader, has the severe handicap of being wheelchair-bound following an assassination attempt in 1990. Mr Volker Rühe, another erstwhile crown prince, has not enhanced his reputation as defence minister, and is thoroughly unpopular in his own party. Mr Kohl's instinct for political survival has ensured that most potential rivals for his position – like Mr Kurt Biedenkopf, now state premier in Saxony, or Mr Heiner Geissler, the former party secretary-general - have been banished from the corridors of power.

The succession struggle may only begin in a couple of years. But the chancellor faces a more immediate problem: how to rule not only with a paper-thin majority in the Bundestag, but against a hostile majority in the Bundesrat, the second house of parliament, representing the 16 federal states.

The Bundesrat never operates entirely along party-political lines, representing a complex mix of state governments which range from grand coalitions between the CDU and the opposition Social Democratic Party (SPD), through "rainbow" coalitions of many parties – SPD, Greens and FDP, for example – to single party rule in a minority of states. The SPD's leading role in a majority of the governments means that it has the capacity to block legislation, above all where finance is required. So Mr Kohl faces the prospect of having to rule in a de facto grand coalition with the SPD in the Bundesrat, as well as with his FDP and CSU partners in the Bundestag. This really means that Germany's states will continue to wield considerable power in Bonn – as when they were able to win substantially increased influence over European Union decisions in the process of ratifying the Maastricht treaty. They can trim the ambitions of the federal government, and upset plans for strict spending control.

Mr Kohl is a past master at the consensus-building required by such a political stalemate, but it does mean that decision-making becomes enormously time-consuming and unwieldy.

Perhaps his greatest problem will be the unpredictability of his junior coalition partner, the FDP. The liberals, members of almost every Bonn coalition, were punished by voters for their lack of policy profile, and their lack of personalities.

They only managed to scrape back into the Bundestag thanks to a large number of second votes – in favour of a party list, rather than individual candidates – transferred by CDU supporters, who calculated (correctly) that without the FDP in parliament, the coalition would have no majority at all. The temptation now will be to seek that profile by distancing themselves from their coalition partners.

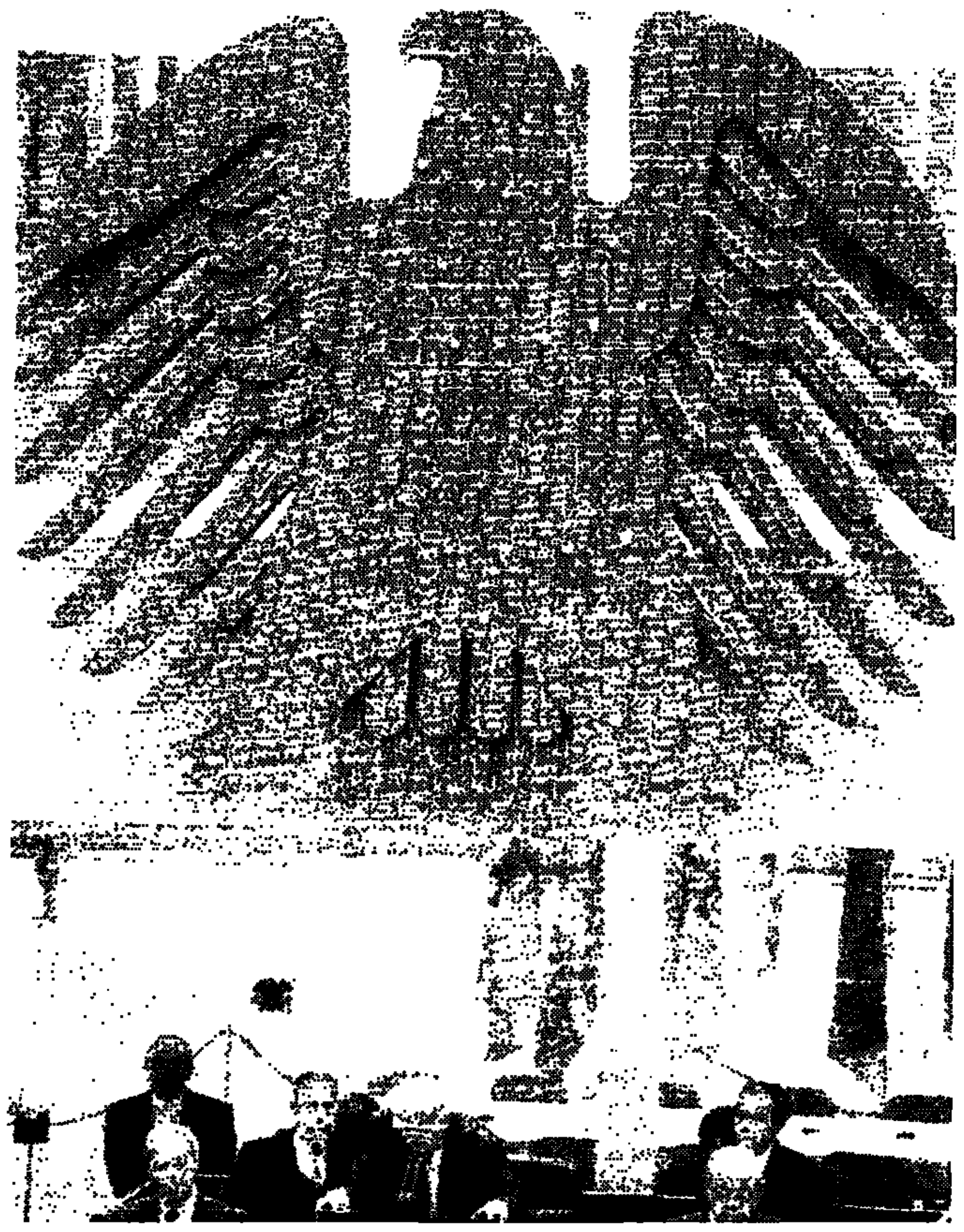
Mr Kinkel is committed to the coalition: he fought the election on that basis, and fought the doubters in his party. But there are clearly those within its ranks – including Mr Jürgen Möllemann, the former economics minister, and possibly Mr Hans-Dietrich Genscher, the former leader and foreign minister, who remains very much the father-figure – who might be tempted to bring down the coalition in mid-term, with an eye to the next elections.

One strategy would be to force the CDU and SPD into a grand coalition, as happened in 1969, leading ultimately to a change in 1972 to an SPD-FDP coalition under Chancellor Willy Brandt. Another, much less predictable, would be simply to switch allegiance to the SPD in a rainbow coalition with the Greens. With the FDP desperate to recover its lost electors, any such strategy may be possible. Mr Kohl will do his level best to keep them on board, because he knows that the alternative of a grand coalition with the SPD has never proved healthy for his party in the past.

It allows the Social Democrats to demonstrate that they can be worthy and reliable members of a government, to overcome the conservative German electors' innate mistrust. As for the SPD itself, the party leadership has adopted a strategy of wait-and-see. The election result was a disappointment, but in the end, not a disaster. Mr Rudolf Scharping, the youthful leader, has moved from his provincial base in Mainz, where he was state premier, to the Bundestag as parliamentary leader, giving himself the national platform he needs to prepare for a possible change of power. He knows that the pressure is on Mr Kohl and his coalition rather than on the opposition.

He has problems on two fronts: he must ensure that his main rival for the party leadership, the smoother and more articulate Mr Gerhard Schröder, state premier in Lower Saxony, cannot mount a challenge. As he was closely involved in the SPD election strategy, he cannot distance himself from blame for the defeat. The other problem is to oppose the Chancellor, without being seen to be totally negative: the SPD majority in the Bundesrat must be used with care. That is the in-built pressure in the German system towards consensus.

Nothing is entirely predictable about the next four years in German political life. But the consensus-building system will probablymuddle on, never producing entirely clear decisions, but still finding acceptable solutions. It is really more a system of non-government, than strong government, which may well be one secret of German success.



The Bundestag is opened by its senior MP, former refugee writer Stefan Heym, of the Democratic Socialists

Chancellor Helmut Kohl (right) and finance minister Theo Waigel listen to Stefan Heym's opening speech

Judy Dempsey on why the east voted differently

We're no pushover, politicians are told

There was extraordinary relief among German politicians when the election results started coming through on the night of October 16.

All the parties had cause to celebrate. Chancellor Helmut Kohl's governing Christian Democratic Union and the Christian Social Union, its Bavarian sister party, was returned to power, albeit with a majority of 10 seats.

The Free Democrats, the junior partner in the coalition, managed to jump the 5 per cent hurdle – due to tactical voting – which will allow them to remain in the coalition. The opposition Social Democrats had their share of the vote increased by nearly 3 per cent to 36.4 per cent. And the Greens/Bündnis 90 got 7.3 per cent, 1 per cent more than the FDP.

Even the Party of Democratic Socialism (PDS), the successor to east Germany's former communist party, got 4.4 per cent of the vote on the federal level, and nearly 18 per cent in eastern Germany itself.

Yet behind the smiles and jubilation lies one fundamental problem which unites all the west German political parties: the election results clearly showed that if there is to be genuine political unification, the parties must work hard to establish themselves in eastern Germany. The elections results there explain why.

In eastern Germany, the CDU's share of the vote fell by 3.3 per cent to 38.5 per cent; the FDP's fell by 8.9 per cent to 4 per cent; the SPD's vote rose by 7 per cent to 31.9 per cent; the Greens/Bündnis 90 remained almost the same at 5.7 per cent; and the PDS's share of the vote rose by 6.6 per cent to 17.7 per cent.

The lesson of these results is that a political culture is evolving in eastern Germany which could point towards polarised voting.

At one end of the spectrum is the CDU. At the other is a divided left, with the east Germans deciding over the next few years whether the region's legitimate left-wing party will be the PDS, successor of the communists, or the SPD, the western-based Social Democrats.

The SPD, against all the odds, did better than expected in the five eastern states. After all, it was the only political party which had no "block" party which before German unification had been sanctioned by the ruling communist, or Socialist Unity Party. As a result, since 1990, the SPD had to start from scratch in building up a local grass roots organisation.

It made no significant headway over the past four years, for example by winning over PDS voters. One reason was that the SPD lacked personnel. More important, as the central party organisation in Bonn moved towards the centre this had the affect of creating a vacuum in eastern Germany which the PDS gradually filled.

Moreover, the SPD in Bonn, under Mr Rudolf Scharping, failed to sense the shifting political alliances in eastern Germany, particularly after the elections in June in the eastern state of Saxony-Anhalt when the SPD managed to dislodge the governing CDU/FDP coalition from power by forming a minority government with the Greens/Bündnis 90, but with support from the PDS.

Saxony-Anhalt represented a turning point. It showed that the SPD in eastern Germany needs the support of the PDS if it is to dislodge the CDU from power, and if it is to make any inroads into the left-wing vote. But the SPD in Bonn is not prepared to allow another Saxony-Anhalt model to emerge in the eastern state of Mecklenburg-Vorpommern. There, Mr Harold Ringstorff, leader of the SPD, had considered trying to form a minority government with the backing of the PDS. Mr Scharping staunchly opposed this and insisted that the SPD instead form a coalition government with the CDU, the largest party.

A political culture is developing which points to polarised patterns of voting between Germany east and west

This pressure from Bonn is seen by SPD officials in eastern Germany as counter-productive. "We will never establish our own roots and identity if the SPD federal leadership does not recognise that eastern Germany is different, that our political culture is different, and that we need support, not instructions from Bonn, to help us establish ourselves as a genuine left-wing party here," a Mecklenburg-Vorpommern SPD official said.

Yet as this battle for the left-wing vote will almost certainly intensify over the next four years, with the PDS determined not to lose the momentum, or remain a protest, or "anti-wessi" (anti-west German) party, the FDP and the Greens will have to reconsider their entire strategy in eastern Germany.

The FDP failed to jump the 5 per cent hurdle in the east, and failed to get re-elected in the eastern state governments of Saxony-Anhalt, Saxony, Thuringia and Mecklenburg-Vorpommern. The Greens came under immense pressure as well. Although they jumped the 5 per cent hurdle throughout eastern Germany, they failed to get back into the state parliaments of Saxony, Thuringia, Brandenburg and Mecklenburg-Vorpommern.

These voting trends for the the FDP and the Greens indicate two things: the centre/liberal political culture has failed to become rooted in eastern Germany; and second, the question of environmental issues and the need for an alternative voice representing greater accountability in the German political system carries practically no weight in eastern Germany. The political liberal/centre and alternative political parties do not yet exist.

The FDP explains its miserable performance in the east by pointing to the absence of a Mittelstand, the small and medium-sized enterprises which form the backbone of the FDP in the west. But FDP officials also add that libertarian values of civil rights, easier access to citizenship, more rights for foreigners, an immigration law, the protection of civil rights, and curbs on police powers, have little relevance to the east German voter. "A section of the east German voters want strong leadership, a government which will provide security, combat crime, and reduce unemployment," an FDP official said. Perhaps, when the economy in the east picks up, the fledgling Mittelstand might shift to the FDP. But at the moment, the PDS has captured part of this constituency.

The Greens/Bündnis 90 are even in a more difficult situation. They are handicapped by a tiny membership. But their policies, which focus on environmental and ecological issues, touch few east Germans. More disappointing for the Greens is that the inspiring and energetic spontaneous movement of "people power" which emerged in the autumn of 1989, and whose immense pressure led to the collapse of the Berlin Wall and the communist system, has disappeared.

The wish – however idealistic – for a political system based on the local and popular level has either given way to disillusionment, or else some of those energies have been channeled into the PDS.

Perhaps time, coupled with an economic upswing, will allow the FDP and the Greens/Bündnis to regroup and reorganise in eastern Germany. But as officials across the political spectrum in eastern Germany admit, the east Germans are politically tired, while those with any political energy do not want interference from Bonn.

"There is a yearning to make our own politics. To find our own way," an SPD official in Mecklenburg-Vorpommern explained. "If we cannot do this, more of our voters will drift to the PDS. We have much to do over the next four years," he added.

Flower power: Alternative Party members at the November 10 opening of the 13th parliament in the Berlin Reichstag building Picture: Reuter

■ Profile: GREGOR GYSI OF THE PDS

Democrat of the left

He charms the elderly, he listens to the unemployed and he tries to capture the imagination of the youth. He is witty, twists difficult questions to his advantage, and convincingly states the case for the east Germans. "He seems all things to all people, but what does he really stand for?" asks a supporter of Mr Gregor Gysi, the 46 year-old parliamentary leader of the Party of Democratic Socialism, the successor to the east German communist party.

PDS leader Gregor Gysi

Mr Gysi, a former civil rights lawyer and son of a former east German minister of Culture, has few illusions about what he wants to achieve over the next four years. He wants to make the PDS the main left-wing party in east Germany and even to get the party rooted in west Germany as well, where the left wing is dominated by the Social Democratic Party (SPD).

So far, the dapper, small man who alternates his smart suit with black denims and shirt, seems to be succeeding, at least in the east. The PDS won nearly 18 per cent of the vote in east Germany during the recent federal elections, and nation-wide it captured 4.4 per cent. Not bad for a party whose membership is stigmatised for its communist past and pilloried by the west German media and established political parties for being "fascists painted red". All this is grist to Mr Gysi's mill. "It means the establishment is taking us seriously," he says.

But the next few months are crucial for Mr Gysi and the PDS. For one thing, he has to shake off allegations of having had unofficial contacts with the Stasi, the former east German secret police. If documents can be found to discredit him, then the PDS will almost certainly lose the one politician who can make it into a modern social democratic party.

To achieve his goal Mr Gysi will have to isolate the Communist Platform, a hard-line Leninist wing which believes in the centralised state and economy. He and Mr Andre Brie, his campaign organiser and "ideologist" of the party, want to address this issue at next January's PDS conference.

He also wants to make certain that the PDS moves away from being a "protest party", which attracts the unemployed and those disappointed with unification, to one which can interest the younger generation. "The PDS could become a short-lived phenomenon if the economy picks up and if the SPD really establishes itself in east Germany," said Mr Brie. Above all, Mr Gysi wants to give the party respectability. The fact that the PDS now supports the minority coalition government of the Social Democrats and the Greens in the eastern state of Saxony-Anhalt, suggests that it wants to learn what power with responsibility means.

However, he knows that time is not on his side. He faces elections in Berlin next year, where the SPD is desperate to dislodge Chancellor Helmut Kohl's governing Christian Democrats from the Rathaus, or mayor's office. If the PDS, which won four seats in Berlin at the federal elections, fares badly in 1995, it will be Mr Gysi who will have to carry the can.

Judy Dempsey

KEY FACTS

Area	356,733 sq km
Population	81.2 million
Head of State	Dr Roman Herzog
Currency	Deutsche Mark (DM)
Average exchange rate	Dec. 1993 $1=1.7097 DM
	Oct. 1994 $1=1.5209 DM

ECONOMY

	1993	1994
Real GDP growth (%) [1]	-1.7	2.2
Real GDP growth (%) [3]	-1.1	2.8
Components of GDP (%) [1]		
Private consumption	55.7	55.5
Total investment	18.9	19.2
Government consumption	17.9	17.4
Exports	31.8	32.5
Imports	-24.2	-24.6
Annual average % growth in		
Consumer prices (%) [1]	4.1	3.2
Consumer prices (%) [2]	8.9	3.4
Ind. production (%) [1]	-7.0	2.1
Ind. production (%) [2]	8.6	21.5
Retail sales volume (%) [1]	-3.8	-1.4
At end period		
Unemployment rate (%) [1]	9.0	9.2
Unemployment rate (%) [2]	16.2	14.1
Share price growth (%) [4]	44.5	-2.8
Discount rate (%)	5.75	4.50
Lombard rate (%)	6.75	6.00
14 Day repo rate (%)	6.00	4.85
10 year govt. bond yield (%)	5.54	7.58
Trade (DM bn) [5]		
Current account balance	-35.2	-19.5
Merchandise exports	624.7	331.7
Merchandise imports	564.9	295.2
Trade balance	59.6	36.5

(1) Western Germany (2) Eastern Germany (3) Pan Germany Goldman Sachs GDP growth forecast for 1994
Average growth over year to date (September) for Consumer prices, Industrial production and retail sales volume,
(4) Annual % change in FTA index to end Dec 93, Oct 94.
Unemployment Dec. 93, Oct 94.
Interest rates, Bond yield at end Dec. 93, Oct. 94.
(5) Trade figures first half 1994 only.
Sources: IMF, Bundesbank, Goldman Sachs.

The economic recovery may mask structural faults, writes **Christopher Parkes**

Pessimists question euphoria

Although some of the bounce has gone out of Germany's economic recovery, the debate over its speed and direction is as lively as ever.

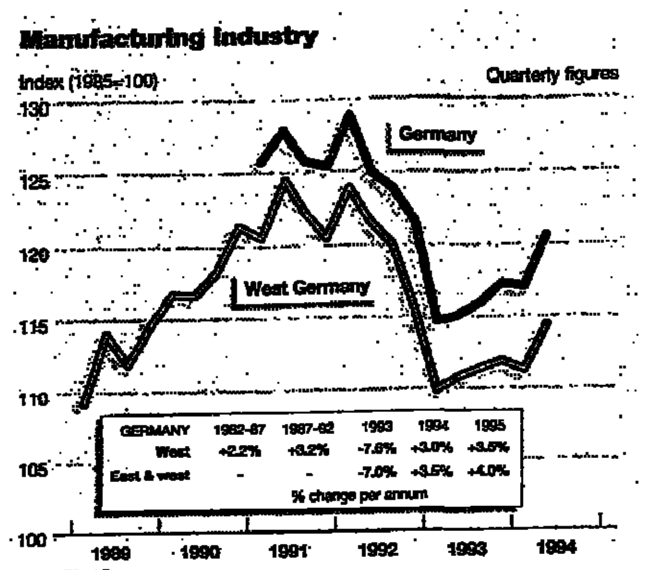
There are two clear schools of thought over the outlook. The most popular – promulgated vigorously by government and the business establishment during the latest federal election campaign – is that the recovery will continue uninterrupted, taking the country into an extended period of stable growth.

Less popular, but equally persistent, are the views of the dissidents who warn that the recession and its aftermath have distorted the real situation. They say that despite the apparent rapid recovery, a combination of current weaknesses and the underlying structural faults in economic, fiscal and monetary policy indicate a rougher ride than that seen by the optimists.

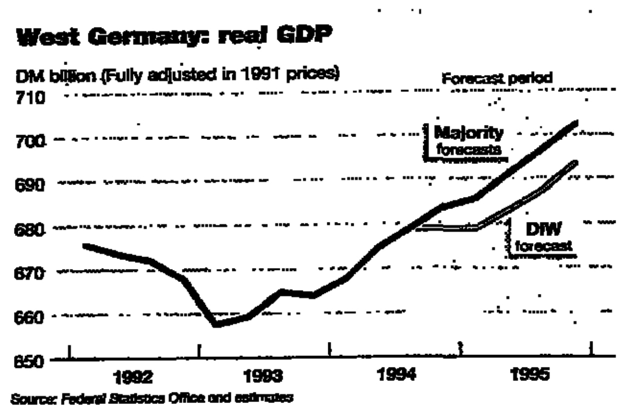
There is no disputing that the sequence of events so far this decade, starting with unification in 1990, has been extraordinary. The uniting of the two Germanies created a unique economic "micro-cycle" as a result of which the international recession very nearly passed Germany by. In the event, pent-up demand for western goods and services in the former GDR effectively kept the slump at bay until mid-1992. Then, as partner-economies were starting to show real recovery, Germany slipped into its steepest cyclical decline since the war.

Executives and economists who at the time admitted to being surprised by the downturn are now confessing to being equally surprised by the speed, breadth and momentum of the upswing.

The recovery has been driven from the start by powerful export demand which has raised pan-German manufacturing industry's output by an estimated 3.5 per cent this year, following the 7 per cent nosedive recorded in 1993. Although differing over the finer details, most forecasters reckon on a further 4 per cent increase in industrial production in 1995 which should feed through into 3 per cent growth in gross domestic product following 2.5 per cent this year.



Source: WestLB



Source: Federal Statistics Office and estimates

The main assumptions are that:

- private and public demand will remain muted as a consequence of falling real incomes and political commitments to budgetary restraint;
- exports will continue to grow, although less dramatically than this year, and, crucially,
- increasing corporate confidence will lead to a rise in capital spending to the benefit of the domestic plant and investment goods industries and their myriad suppliers.

A key factor behind Dresdner Bank's estimate of 3.1 per cent GDP expansion in 1995, for example, is an expected 8.3 per cent rise in expenditure on plant and equipment after a cut of 13.8 per cent in 1993 and an increase of a mere 1.6 per cent this year.

Dresdner is also counting on an upturn in commercial construction to counteract the slowing pace in house-building.

Which is where the pessimists join the argument. They claim that the housing boom, which led to an increase of almost 30 per cent in new mortgages in the first eight months of this year has been choked off by a 2 per cent increase in long-term interest rates.

These rates, they argue, will act increasingly as a brake on capital investment within industry.

Last month's traditional autumn assessment of the outlook from Germany's six leading economic institutes *(see page 7 table)* dwelt at length on the issue. A majority opinion (excluding Berlin's Keynesian DIW institute) noted that the international recovery and increasing demand for investment capital had pushed up long rates sharply and quickly. As a result, German business found itself faced with high borrowing costs at an unusually early stage in the recovery process.

However, the institutes said, industry was undeterred. Investment had increased clearly from the middle of the current year as profit expectations improved. Restructuring and rationalisation undertaken during the recession had lowered break-even thresholds. Low pay deals and greater *labour-force flexibility had* reduced unit labour costs to rates prevailing at the start of 1991, and capacity utilisation was once again back at long-term average levels. All these indicators pointed to investment in new capacity.

The DIW, on the other hand, believes that high long rates – a result of the anti-inflation activities of the US Federal Reserve which are unrelated to European conditions and market needs – will constrain investment plans.

The nub of the conflict lies between the DIW's demands that the Bundesbank should cut short-term rates and the majority view that far from leading to lower capital market rates, such a move would raise both inflationary expectations – and, consequently, long rates.

There is also strife, although less polarised, over the dampening effects of the D-Mark's relative strength on export opportunities, and the impact on domestic demand of continuing pressure on disposable incomes.

A recent survey by Munich's Ifo economics institute found around half German companies were already counting on negative effects from the dollar's fall in mid-October to its lowest rate against the D-Mark in two years. On balance, however, the national currency's strength is in present circumstances seen as a positive factor since it acts as a buffer against imported inflation.

Falling personal incomes are also playing a role in curbing inflation, reducing manufacturers' and retailers' room for manoeuvre on prices. But there is growing evidence that it may soon be time to reassess the broader effects of shrunken pay cheques.

On recent experience, many economists predict the German public will continue to draw on their substantial savings to prevent any real erosion of their living standards. A study from the BVB banking industry association noted that: "the stability of private demand is remarkable in the light of the fact that real incomes have been falling since the middle of 1993."

Consumer demand was still *at the level it reached in the* preceding phase of economic growth, the association said, adding that savings had acted as an economic stabiliser during the recession, and implying they would continue to function in similar fashion during the recovery phase.

Latest estimates suggest real private consumption has grown around 0.5 per cent this year – confounding general forecasts of contraction – with a similar rise forecast for 1995. However, the introduction in January of an income tax surcharge to fund unification transfers, higher insurance taxes and the launch of a contributions scheme for care for the elderly are expected to slice another DM40bn a year off disposable incomes.

If consumers respond by digging deeper into their reserves or reducing the amount of cash they salt away each month, it will not be long before the Bundesbank pays attention and will not hesitate to raise interest rates, regardless of the effect on growth.

■ **Profile:** HILMAR KOPPER

Tough guy at the bank

Tall, thick-set and radiating energy, Mr Hilmar Kopper, 59, seems to be thriving after five years at the head of Deutsche Bank. He talks of rising profits, greater efforts to fight off domestic competition and improve efficiency, and a new push abroad in investment banking, writes ANDREW FISHER.

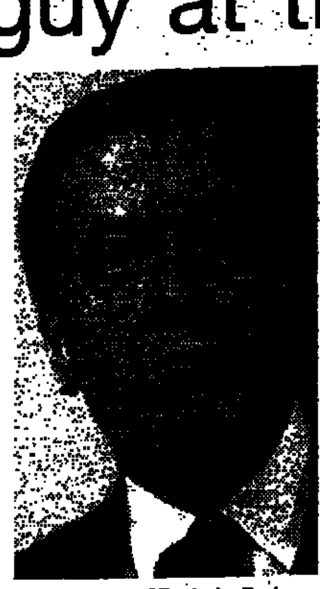
His period as speaker of the management board at Germany's largest commercial bank has, he says, "been a very lively period of tremendous growth and great challenge".

But the latest of his years in one of Germany's most *demanding corporate jobs has* undoubtedly been one of the toughest.

As the country climbs out of recession, criticism of banks' lending policies and sometimes high-handed attitudes to customers have grown. Adding to Deutsche's tribulations was the near-collapse of Metallgesellschaft, the industrial and trading company with which it was involved as shareholder and creditor.

A further blow came with the failure of the Schneider property group, to which the bank was a major lender; it was while commenting on that crisis that Mr Kopper made his fateful remark about outstanding payments to contractors being "peanuts" - the German press picked this up with glee as evidence of the bank's arrogance.

But these upsets were nothing compared to the circumstances in which Mr Kopper came to his present post. He was appointed after Mr Alfred Herrhausen was murdered by terrorists in November, 1989,



Hilmar Kopper of Deutsche Bank

just three weeks after Germany had experienced the euphoria of the fall of the Berlin Wall.

Mr Kopper's pragmatic down-to-earth style is very different from that of Mr Herrhausen who had a high public profile through expounding on a variety of political and economic topics beyond the world of banking. Mr Herrhausen spoke in favour of reunification before many in west Germany had accepted its inevitability. But it was Mr Kopper and his colleagues who had to move the bank eastwards.

"We had to make some of the fastest and most far-reaching decisions made since World War Two," he says. "Looking back on it [the investment in the east], there is very little we would change. We are very pleased with how we were able to grow in that period." Now, it has a larger market share in east Germany (nearly 9 per cent) than in the west. Surprisingly to many people, Germany's big banks have a smaller share of their own market than their counterparts in other countries.

With total assets of DM570bn, Deutsche Bank is well placed for further expansion; it has bought retail banking networks in Spain and Italy and is locating its worldwide investment banking activities in London, where Morgan Grenfell (its merchant bank subsidiary) is based.

But there is one area where Deutsche Bank does not plan to expand: its industrial shareholdings, with a market value of some DM25bn. While these provide a useful earnings cushion, they also attract envy and critical comment about the Macht der Banken (power of the banks).

Compared with the market capitalisation of listed companies, German banks' holdings are tiny. But to some politicians, they are a provocation. Calls to reduce them are voiced often, usually linked with the demand that the prominent presence of bankers on company's non-executive supervisory boards be reduced.

Mr Kopper rejects the view that banks make poor shareholders. "What makes a bank a worse shareholder than anybody else?" He says Deutsche does not intend to increase its portfolio, though it would like to diversify it. On this and other issues where the bank has come under fire, he has a simple answer: "We are a member of society and there is nothing wrong in people discussing what we do." Even so, he must hope the next few years bring fewer barbs and controversy than 1994.

■ CORPORATE GOVERNANCE

Perturbation in the boardrooms

Germany's two-tier board system has been a much admired feature of its industrial and financial strength in the post-war decades, but recent events have led to some red faces among bankers and businessmen.

For the more complex and international businesses become, the harder it is for non-executive supervisory board members – meeting only four times a year – to have a firm grasp of what is really going on. The case of Metallgesellschaft has reopened the debate about the effectiveness of these boards. The main questions asked are whether they serve any real purpose and what sort of reforms, if any, should be introduced.

As usual in such cases, it is the banks which feel the impact most severely. It is they who provide many of the non-executive board members, and especially chairmen.

Mr Ronaldo Schmitz, a managing board member of Deutsche Bank, took over the supervisory board chairmanship of Metallgesellschaft in March of last year. It was at the end of 1993 that the industrial and trading company revealed spectacular losses on US oil futures trading. Mr Schmitz's response was to sack key members of the company's board, headed by Mr Heinz Schimmelbusch, and try and unwind the financial costs of the complex oil contracts.

The argument about whether this was done in the right way – or whether it made paper losses into real ones – is continuing, with executives of the bank and the company ranged against academics and former Metallgesellschaft employees. But the wider and more significant debate, over the real purpose and relevance of German supervisory boards, is only just beginning.

Nor is it a new one. Previous industrial upsets have also led people to question not only whether the system of two-tier boards was appropriate in the first place but also whether the right people were being appointed to them. Today, however, the debate in Germany also has to be seen in the context of a wider international discussion over corporate governance – the relationship between management, shareholders and others closely involved in a corporation, such as employees.

The main criticisms of the German supervisory board *(Aufsichtsrat)* system concern the frequency of meetings, the number of mandates individuals should hold and the extent to which their work is supported by committees on such functions as auditing and personnel. None of this would guarantee that debacles like that of Metallgesellschaft – where Mr Schmitz says Mr Schimmelbusch did not keep him properly informed – could never happen. But such improvements would provide an extra level of protection.

The main job of the supervisory board is to choose the management board *(Vorstand)*. It also advises on major investment and other decisions. Since 1976, under the *Mitbestimmung* (co-determination) law, large companies must have an equal number of shareholder members on their supervisory boards. However, the chairman has a casting vote and one labour member has to come from the white-collar staff and is thus likely to side more with management.

The workload for supervisory board members can be immense, especially for the chairmen. Because of their links with corporations and their status in the financial community, bankers are often chosen as heads or members of these boards. Top managers of Deutsche Bank (from board members downwards) sit on around 400 supervisory boards; Mr Hilmar Kopper, the bank's chairman, heads the supervisory board of Daimler-Benz, the country's biggest industrial group, and sits on those of Volkswagen, Lufthansa and Bayer, among others.

One of his Deutsche Bank colleagues, Mr Rolf Breuer, believes it is up to the banks to make the main proposals for a reform of Germany's non-executive board system. One suggestion, also put forward by some politicians, is for a reduction in the number of such board positions one person can hold; currently, it is 10. "It would certainly be desirable if people had more time for a difficult mandate," he told *Finanzen* magazine.

He also said supervisory boards would benefit from having more experienced businessmen at or near retiring age. "They would be 65 or younger and have a great deal of experience or contacts." More committees would help, too. But he thought the *Aufsichtsrat* system as a whole was healthy.

In a comprehensive description of changes needed to the system, Mr Florian Schilling, partner in a Frankfurt-based management consultancy firm (Amrop Mülder & Partner), agreed with some of these points. He said a study by the firm had shown that many supervisory board members themselves agreed with criticisms now being aired.

Of course, if shareholders took greater account of their own interests in the first place, many of the problems would never occur. This would need a basic change in shareholder consciousness, he said in an article in *Frankfurter Allgemeine Zeitung*, the daily newspaper. But since this was not likely in the short term, improvements in the workings of supervisory boards were necessary.

The lack of a strong equity culture in Germany is often bemoaned by those wanting to speed up development of the country's financial markets. Carl Fürstenberg, a legendary German banker who died in 1931, once said shareholders were stupid and cheeky – stupid for buying shares and cheeky for expecting dividends. However, Mr Schilling noted there were *few* German shareholders and they were seldom "cheeky" enough to call management and non-executives severely to account.

Among the main proposals arising from the Amrop Mülder study were: a more open method of choosing supervisory board members; more use of specialised committees; smaller boards of no more than 12 people instead of the 20 or so at some companies; fewer bankers, a point with which many bankers themselves agreed (Mr Schilling reckoned this reflected the harsh criticism many have come under because of their supervisory board roles); the voluntary acceptance of fewer mandates; and more frequent meetings.

Few critics of the system actually want to do away with it altogether; it has played too valuable a role in promoting industrial harmony and solidity. Nor is the current discussion anything new. Reforms were also mooted after crises such as those at AEG, the electrical company now owned by Daimler-Benz, IBH, the now defunct construction equipment maker, and the Klöckner-Humboldt-Deutz engineering concern.

Changes do not happen fast in Germany, so any revamping of the supervisory board system will take time. But if nothing is done, the next crisis will raise further doubts about its viability.

Andrew Fisher

Germans are timid investors, says **Andrew Fisher**

Afraid of a flutter

Germans are impressive savers but unexciting investors. Not for them the ups and downs of stocks and shares, even though long-term gains on these outpace other types of investment. The average German will put safety first almost every time, choosing reliable fixed interest returns over potential gains from equities.

However, the real story is rather more complex. First, investors' attitudes are changing, though not with great speed. Second, the unavoidable pressure on individuals to make more provision themselves for their future pension and health needs will accentuate the change. And third, the recollection of world wars and inflation, and the resulting dislike of risk, will be replaced in the minds of many younger people by the opportunities opening up in the rapidly evolving international capital markets.

The present statistics look fairly dismal for proponents of the equity culture. Only 5 per cent of German households' total financial assets of DM4,000bn consist of equities. Of the money going into investment funds, over two-thirds is directed towards those specialising in bonds. The number of listed stocks is dwarfed by those in other countries; Germany's 665 compare with 1,900 in the UK, 1,300 in Japan and 6,500 in the US.

On the other hand, Germans saved more than 13 per cent of their incomes last year, well above the level in France, the UK and the US. Why does more of that money not go into shares? In the view of Mr Gerhard Liener, a director of the Daimler-Benz vehicle and aerospace group, efforts to win over the investors of the future will have to be made now if they are to be persuaded to go more enthusiastically into equities.

If households' property ownership is added in, their total assets amount to around DM10,000bn. As much as DM2,000bn could be passed on to the next generation up to 2000, he told an investment conference in Düsseldorf. The average value of an inheritance would be about DM300,000.

Mr Liener had several answers to the above question. One was the existence of a financial and accounting system which favoured creditors rather than shareholders. Savers deposit funds with banks which lend them to companies. Shareholders' interests are often neglected. Nor is it easy to obtain a clear financial picture from many corporate accounts, since high levels of tax-free reserves stand in the way of full profit disclosures.

Daimler-Benz started chipping away at such obstacles when it agreed to produce a separate, and more open, set of accounts for its US share listing last year. Other companies are reluctant to follow, but may have to if they want to tap world markets for cheaper sources of finance.

One reason for the government's efforts to help develop

Attitudes are changing, with the rise of postwar generations who do not remember the inflation crises of the past

the financial infrastructure was the sheer size of future capital-raising needs. Not only is the public sector itself a heavy borrower, but German state and private companies are also expected to come to the market in increasing volumes.

As Mr Liener pointed out, the partial privatisation of Deutsche Telekom, the state telephone company, is expected to raise some DM15bn. This will only be the first tranche. Daimler itself raised DM3bn this year. "The German capital market is over-stretched with sums of this type," he said. "Thus large companies will increasingly turn to other capital markets, above all to the US, the most productive in the world."

If German companies are to take advantage of this – Deutsche Telekom hopes eventually to obtain a US listing – they will have to adapt to Anglo-Saxon methods. US institutions have a huge volume of funds for investment; by next year, they will have $100bn invested abroad. To be tempted more heavily into German stocks, they will need more transparent accounts, evidence that companies really do care about the price of their shares, and a wider spread of issues.

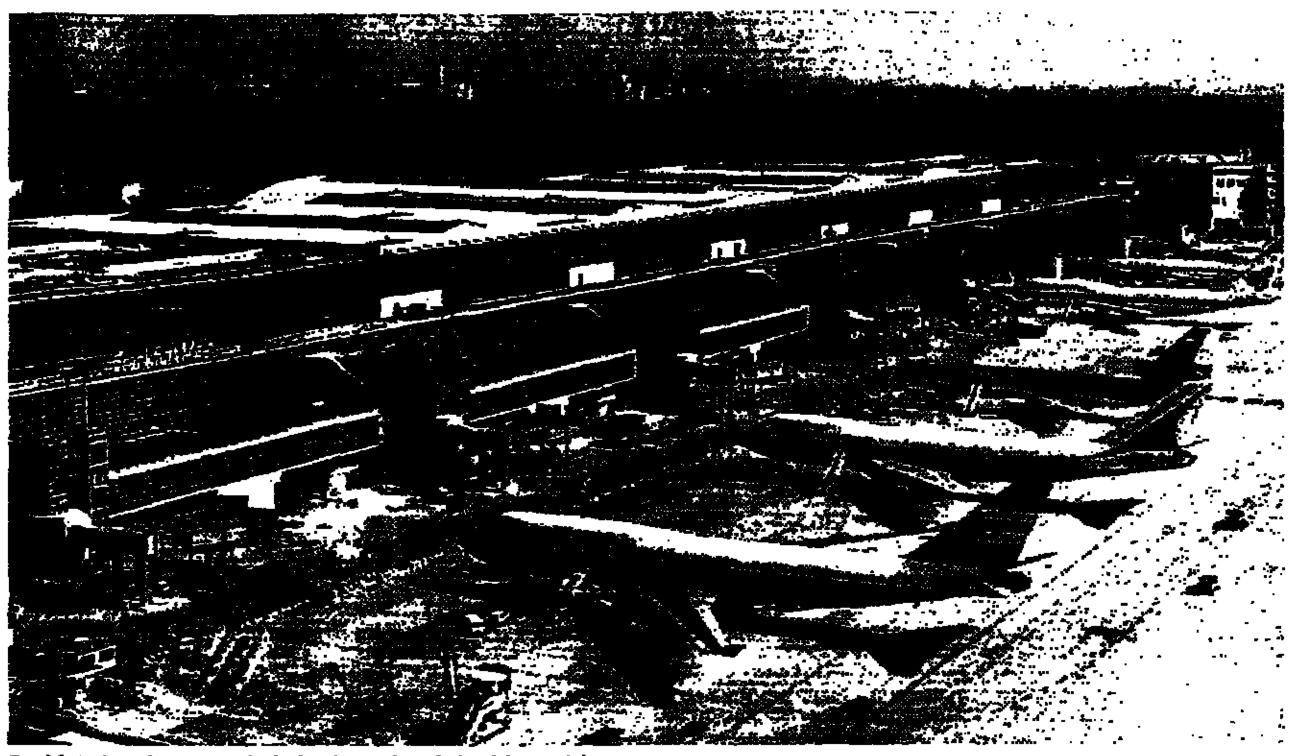
If this occurs in the next few years, the outlook for German investors will also improve. Some progress is already discernible. Investment funds (the equivalent of UK unit trusts) attract a growing volume of funds. Bundesbank figures show that every seventh D-Mark invested now ends up in a managed fund compared with every 13th in the 1980s and only every 30th in the 1970s.

The central bank said unit purchases by private and institutional investors had undergone "a powerful upturn" after being overshadowed by other forms of investment before the mid-1980s. Foreign bankers also pay tribute to the efforts of investment funds, some owned by the big banks, to win over investors and provide a wide range of domestic, foreign, and hedging funds.

Although most German investors still prefer bond-based funds, their tastes are changing, says Mr Christian Strenger, head of DWS, Deutsche Bank's fund management operation. "The proportion of money being invested in our equity funds has been rising strongly. For DWS, it is now 20 per cent. It ought to go to 35 per cent." This could happen in two to four years – "hopefully before the end of the millennium".

By putting a Mr Smiley face on some of its brochures, DWS has tried to catch savers' attention. Mixing fun and finance is fairly un-German, but DWS hopes to appeal to investors of all temperaments. Also adopting a novel approach, Berentzen, a drinks company, put details of its recent share issue on the backs of schnapps bottles.

Another innovation is the DM5 nominal share, now allowed by law and aimed at making shares more affordable by dividing them into smaller units. The first such issue, by the Fielmann optical company in September, was an immediate success.



Frankfurt airport's new terminal: slow to catch on but quick to catch up

Andrew Fisher studies Germany's bid to be a world financial centre

Frankfurt flaps its wings

"Slow to catch on but quick to catch up" is the verdict of a foreign banker in Frankfurt on how Germany's financial markets, and those responsible for their development, have responded to pressures for change.

The Bonn government has pushed through laws to make Finanzplatz Deutschland (Germany as a financial centre) more attractive and efficient; the equities and futures markets have been streamlined; and the Bundesbank has taken a more relaxed stance over financial innovations. More changes are in the pipeline.

This activity is yielding results: insider trading is being outlawed; a new body to regulate the securities markets is being formed; tougher disclosure rules for share stakes are being introduced; and money market funds – common in countries like France and the US – are becoming part of the financial landscape.

Thus Frankfurt has the basis to develop into a much more dynamic financial centre. But this does not mean it is approaching the status of London, a global centre ranking with Tokyo and New York. That was underlined by the recent decision of Deutsche Bank to base its investment banking activities in London, where it bought Morgan Grenfell, the UK merchant bank, five years ago.

The fact that Germany's biggest bank took that long to choose London as the centre of its investment banking activities – its German business will stay in Frankfurt – shows the truth of the above quote. On the other hand, Deutsche Bank did not want to swamp Morgan Grenfell's identity and was keen to learn about the more entrepreneurial Anglo-Saxon banking culture.

Although Deutsche Bank's plans shook many people in the German financial community, there was general understanding for its decision. London is where much of the expertise lies and where international equities trading, mergers and acquisitions advice, and derivatives business are far more highly developed. Other German banks may also move equities and derivatives trading to the UK.

While this will hardly enhance Frankfurt's reputation, it should not dent it too much. Many bankers see Frankfurt's main role as a regional financial centre for continental Europe, handling important deals for both east and west.

"What we do in London should and will have a positive effect on what we do in Frankfurt," said Mr Hilmar Kopper, Deutsche Bank's chairman. "The success we may have as a London participant should mean additional business and more success for Finanzplatz Frankfurt."

But that will mean more effort by those in Frankfurt itself. As the home of the Bundesbank and now of the new European Monetary Institute – forerunner of the planned European central bank – it is one of the world's most important monetary capitals. It houses several important international banks, a thriving bond market – the third largest in the world and biggest in Europe – and a successful futures market, the Deutsche Terminbörse (DTB).

It is in equities that Frankfurt, which dominates trading on Germany's eight stock exchanges, has the most catching up to do. This reflects the relative lack of interest among private investors in shares, though this is changing, and companies' traditional reliance on bank loans rather than equity. Smaller German companies have also been reluctant to dilute control by raising funds in the market.

"Germany is not so far a stock-market oriented society," says Mr Bernhard Walther, head of Dresdner International Research Institute (Diri), part of Dresdner Bank. "But this is changing rapidly." He believes the government's big privatisation programme will provide a huge impetus.

The partial privatisation of Lufthansa, the German airline, raised some DM1bn this year. But that of Deutsche Telekom, likely to raise some DM15bn early in 1996, will have a much greater impact. Foreign banks have vied to play a key international role in the Telekom flotation, next to Deutsche and Dresdner. If the issue is handled well, it could promote share ownership among private investors and raise Frankfurt's status.

"The repercussions of Deutsche Telekom will be quite substantial," says Mr Andreas von Buddenbrock, head of investment banking at the German operation of Merrill Lynch, the US investment house. Foreign interest in the issue will be substantial, but domestic investors will also be wooed.

There is plenty of scope to lift outside interest in German stocks. Of the net capital flow of $63bn by US investors into foreign equities last year, Germany accounted for only $2.7bn. "The German market has obviously only been of minor interest to American investors," Mr Buddenbrock wrote in *Börsen-Zeitung*, the financial newspaper. With US investors becoming more globally-minded, "German corporations should attempt to become more attractive".

That means clearer accounts, greater attention to investor relations, and more understanding of how capital markets work. For an economy the size of Germany's, the stock market certainly needs more muscle. Only 6 per cent of households own shares, far below US and British levels. Moreover, the market capitalisation of German shares is equivalent to some 30 per cent of GNP, again far lower than elsewhere.

But Germany has a highly successful economy in which companies tend to put manufacturing and product quality much higher than financial skills. For private investors, the Bundesbank's solid monetary record has meant that fixed-interest investments have produced steady gains. Two world wars, the hyper-inflation of 1923 and the trauma of currency reform in 1948 have tipped the scales away from the uncertainty of shares to the safety of bonds and savings.

"In Germany, equities have not always been better than bonds," notes Diri's Mr Walther, citing the 1970s. But now that the international trend is towards more fund-raising through securities issues and less through bank loans, he sees a new opportunity for Frankfurt. Its regulatory framework is as good as anywhere. "Now, we've got to put life into it."

■ UNEMPLOYMENT

Falling slowly

The turning point in the west *German labour market in mid*summer this year coincided happily with the recovery of the ruling coalition's fortunes in the pre-election opinion polls.

However, as was to be shown by the election results and is becoming increasingly apparent in the monthly jobless data, neither event was as decisive as some would have the world believe.

The adjusted total of unemployed in the west fell 46,000 between June and October, and shows signs of continuing to ease. There will no doubt be gung-ho headlines when the unadjusted figure for the former GDR drops below 1m this month or next – provided winter does not set in too early and send the total up again.

But even the most optimistic forecasts indicate that gross domestic product growth of *3-or-more per cent in 1995* will have little apparent effect on the jobless rate – least of all in old heavy industry areas such as the Ruhr.

According to the autumn prognosis of Germany's six leading economic institutes *(table on facing page)* the rate in the west will average 8.2 per cent after 8.3 per cent this year. In the east, it will stay around 13 per cent. Overall, *3.5m people* will remain without work.

Even longer-term, as recovery consolidates, economists expect western employment to expand at only half the rate of growth in GDP because of industry's need to improve productivity further.

In the east, where economic restructuring is still in full swing, the situation is complicated by productivity (as measured in GDP per employed person) which is still only half that in the west while unit labour costs are 50 per cent higher.

Even so, unemployment is easing and a delicate balance has emerged in which recovering industrial companies are managing to absorb the large number of people still being squeezed out of public sector and agricultural jobs. The situation is also being eased by a *growing core group* of self-employed people. According to official estimates, the number of self-employed in the former GDR has risen by well over 40 per cent since the start of 1991 to almost 500,000 or 7.5 per cent of the total in work.

As in the west, where 10.5 per cent of the workforce is self-employed, many have found roles for themselves in the service industries which most economists see as the main source of hope for a solution to Germany's peculiar difficulties with structural unemployment.

According to a recent study from the BHF bank, the problem in the west is due partly to the mismatch between the *virtual unavailability* of unskilled jobs in the region and the 50 per cent of the jobless total who have no vocational or professional training. Apart from existing education and training schemes which are funded out of the labour office budget, the study suggests efforts should be *concentrated on ways of* developing hitherto unviable service "industries" in areas such as social work, for example.

It was essential, however, not to follow the US pattern where the "employment miracle" had been achieved with a combination of low pay and minimal social welfare cover which generated a new layer of working poor, living on the fringes of poverty.

One suggestion, much discussed among economists but yet to emerge at the political level, is that federal employment office funds, currently *used for unemployment pay,* re-training and work-creation projects, should be diverted into income supplements for *people in work* but *earning* less than the legal minimum.

Mr Bernhard Jagoda, president of the labour office, recently proposed that such a new service sector might spring from the growing demand for home care for the elderly, and estimated it could create some 300,000 jobs.

Mr Jagoda is also a strong advocate of job-sharing, claiming 25 per cent of all jobs could be split, and urging federal and local government to take the lead in public employment, where continuing waves of redundancies are threatened as a result of budget cuts.

*While such ideas are pro*cessed in the mill of public and political opinion, the consensus remains that most can be *done* in the short-term in annual pay negotiations and in the day-to-day contacts between employers and their workers' representatives.

The need to bring Germany's cost of manufacturing labour under control if not into line with European competitors' is clearly underlined by the latest data which shows effective hourly pay in west German manufacturing increased by 25 per cent between 1990 and 1993; productivity rose by 8 per cent.

Following modest pay increases and more job cuts there has been a sharp but unquantified increase in productivity *this* year, which seems likely to be sustained during 1995. Although wage negotiators are expecting slightly more generous settlements, and the job losses are slowing, improved working practices and flexible time-keeping are likely to play an important role in keeping productivity on the rise.

There is also room for savings among the so-called "voluntary" payments and benefits often agreed at company or even plant level.

As the BHF bank's study pointed out, this "tax" on labour lies largely within the area of influence of wage negotiators on both sides and can therefore be adjusted by them should the need arise.

Christopher Parkes

Transport workers in Essen, North Rhine-Westphalia, striking for higher pay Picture: AP

■ MACHINE TOOLS

Wiser and sharper

Few industries in Germany have suffered such a buffeting over the past four years as the 350-odd makers of machine tools – the world's largest machine tool industry after Japan and comfortably the biggest in Europe.

Recession at home, naturally, took its toll. But exports account for about 65 per cent of output, and foreign sales have suffered both from the severe downturn in western markets and the collapse of markets in eastern Europe, where Germany was the dominant foreign supplier.

Reunification, far from bringing the benefits – however transient – enjoyed by other industries, failed to generate extra business for machine tool builders, and decimated all but the technologically brighter stars amid the hugely overmanned east German industry.

The strength of the D-Mark made it harder to make money in export markets. At the same time, the industry's customers in German manufacturing were seeking to cut their own costs and modifying their buy-German stance.

Recent statistics from the VDW, the German Machine Tool Builders' Association, paint a sorry picture. Employment in the old West German industry was more than 100,000 in 1990/91, but had fallen to 73,000 by the end of last year, excluding the remaining 9,500 workers in eastern Germany.

Production fell from DM17.2bn in 1991 to DM10.7bn last year, and domestic consumption from DM12.3bn to DM6.4bn over the same period.

Things are now looking up – the industry's order intake for the first eight months of this year was up 22 per cent on the same period of 1993.

But the traumas of the past four years have punctured the arrogance of the industry, possibly permanently, and some of its famous names, both corporate and individual, have been humbled.

The intertwining, and eventually starkly contrasting, fortunes of four companies in particular, Gildemeister and Traub in turning machines and Maho and Deckel in milling and boring machines, bear witness to the upheaval in the industry.

Gildemeister's Axel Kemna

All four were separate, independent companies in the late 1980s, but even then faced strategic disadvantages vis-à-vis their Japanese competitors.

Now, through a succession of sales *agreements*, a failed merger and a corporate collapse, Gildemeister has emerged as the owner of Deckel and Maho, combining its own turning technology with their milling and boring technology.

The key event was the appointment in April of *an* administrator at Deckel Maho, two companies which had been at each other's throats for 20 years.

"Everybody expected that it would happen, but it was a tremendous blow for our strategy," says Mr Axel Kemna, Gildemeister's chairman. By that stage, Deckel and Maho products were accounting for 55-60 per cent of the volume in Gildemeister's newly-formed Deckel Maho Gildemeister sales joint venture.

The Deckel Maho collapse gave Gildemeister the opportunity to buy only what it needed to continue *its strategy*, and in July it paid DM90m to buy a package of Deckel Maho assets out of bankruptcy.

Gildemeister took on about 1,000 of the 1,700 Deckel Maho employees at the time of the administration. It left behind the Deckel plant in Munich and Maho's DM160m plant at Kempten in Bavaria, a lavishly-constructed white elephant that contributed to the downfall of former Maho chairman Werner Babel.

Mr Kemna believes that, with a streamlined organisation and shorn of the debts of the past, Gildemeister has a "good chance to make something" out of Deckel Maho, whose cost base has been reduced by DM150m a year.

The new, broader Gildemeister group is a stronger competitor in global machine tool markets, he says. As a measure of the upheaval, however, *its* workforce stands at about 2,200, against 5,000 for the three formerly independent companies, based on continuing operations.

On the same basis, next year's sales are expected to be about DM550m, compared with DM1.5bn for the three companies before the recession.

Traub, which was a rival bidder for Deckel Maho, has also been through considerable upheaval since 1990. Internally, production costs have been significantly reduced, with "design for manufacturing" techniques, modular construction and fewer parts.

Machines are made much more quickly, and with fewer people, than five years ago. This has raised the competitiveness of Traub's products among *UK subcontractors*, says Mr Paul Maynard, managing director of Traub's UK sales organisation, renamed Traub-Heckert UK in October.

The name change, which is being repeated throughout most of Traub's worldwide selling organisation, reflects last year's acquisition by the Reichenbach-based company of Heckert, based at Chemnitz in former East Germany.

Once again, this brings together *turning and milling* technology as part of a long-term global strategy – Heckert makes sophisticated machining centres. And the upheaval caused by reunification gave Traub the opportunity to buy only what it wanted from the former Honecker-regime showpiece that was employing 4,000 people in 1989.

Traub currently *employs* just over 500 people at Heckert. "We have bought the high-technology part of the company, which is one of the most advanced machine tool factories in Europe," says Mr Maynard, one of Traub's senior European executives. Traub did not want Heckert's heavy-duty milling machine business, which used to make about 2,500 machines a year mainly for eastern European markets. It has turned what remains of Heckert into a centre of excellence for computer-numerical controlled (CNC) machining centres.

Manufacture of Klink and Variomatic machines, formerly made in western Germany at companies acquired by Heckert, *has been transferred to* Chemnitz, which is to make machine beds for the Traub turning machines produced at Reichenbach.

Early this month , Traub also announced it was taking a majority shareholding in Hermle, the western German milling and boring machine manufacturer with which it made a sales and distribution pact early last year.

Overall, Traub's workforce has fallen from 2,500 before the recession to just over 2,000, even with the Heckert purchase. But the takeover is aimed at giving the company a better balance and, in the long-term, the Heckert range will contribute about 40 per cent of turnover, says Mr Maynard. In the first half of this year, it accounted for DM36.3m out of total turnover of DM161.1m, which itself was up 50.6 per cent from the first half of 1993.

Gildemeister's Mr Kemna says he believes the industry took the right actions through the recession, but says it can hardly be blamed for not having moved quickly enough.

For some German machine tool builders, especially volume *producers*, the decline was 60 per cent.

Most machine tool executives will privately admit the recession has, paradoxically, been a good thing for the industry. It has forced it to shape a corporate and financial structure that matches the undoubted strength of its product ranges and research and development, which has been maintained throughout the downturn.

Andrew Baxter

German machine tool industry 1990-93* (DMbn)

Year	Output	Home demand	World orders
1990	16.4	11.4	17.5
1991	17.2	12.3	15.3
1992	14.2	9.5	11.6
1993	10.7	6.4	9.3

*Eastern Germany included from 1991 Source: VDW

The recovery may be full of surprises, argues ALBRECHT SCHMIDT

Forget about the old up and down cycles

Germany is in the process of recovering from the worst recession it has known. But the economic upswing must not be allowed to conceal the fact that in the medium and long term our country must learn to deal with problems of a quite different order from cyclical ups and downs. Germany is confronted with dramatically sharpened competition in which three overlapping developments combine to create an historic challenge: the economic future of our country depends on our ability to master it.

- The intensification of global competition through breathtaking advances in communications technology, the removal of global trade barriers and competitive pressures emerging from south-east Asia.
- The process of deepening and widening the European Union.
- The emergence of wholly new competitors on our threshold following the fall of the Iron Curtain in eastern Europe.

These developments confront us with both opportunities and risks. Germany, itself rich in human and investment capital, will be able to benefit in future from improved international distribution of labour. The enlargement of markets as a result of the fall of the Iron Curtain and the expansion of the European community will allow greater series-production in manufacturing which will generate appreciable cost-savings.

Nor should we under-estimate the possibilities presented by the variety of products we have to offer – thanks to the Mittelstand companies forming the backbone of the economy. Germany's geographical position in the centre of Europe should also be especially beneficial. But the greater the opportunities, the greater the risks of reacting wrongly to them.

Private business must take care to adapt to the new circumstances: reorganisation is already under way in many sectors. But doubts must be raised over the government's will and ability to react adequately and the readiness to be flexible on the part of wage negotiators. With these doubts in mind, I see the need for thorough-going reforms in five areas of policy.

- **Less protectionism:** Germans have to come to terms with the fact that our industries in which we are less productive than other countries will shrink. It is even more important that we accept contraction in those sectors where, even though we may be more productive than foreigners, our lead is relatively narrow.

I offer mining, the steel industry, agriculture and textiles as possible examples, although I admit the latter already have a large part of the necessary adjustment process behind them. But only if we take Ricardo's theory of relative cost advantage seriously can we realise the hoped-for trading profits from improved international distribution of labour.

To date economic policy has tended mostly to hamper structural change necessary in our labour market, and it is tin · ı› call a halt. It is absurd to · .ıo-sidise jobs in mining with annual funding sufficient to send each of our 150,000 mine workers on a year-long holiday to Majorca.

- **Deregulation:** The most important way we can arm ourselves for new competitive conditions is to reduce and thin out the dense mass of state regulation. It is not the job of the state to act as aide and agent to private enterprise which wants to protect itself from unwelcome competition by means of excessive restrictions on access to markets.

There are more than enough examples of inefficient regulatory measures. Is it really necessary, for example, to insist that an individual must have a master craftsman's certificate as a precondition to setting up in a small business? Is it really not enough for the would-be proprietor to demonstrate five years' experience as a journeyman carpenter, bricklayer or whatever? Should a plumber really be forbidden from re-laying the tiles he removed while fitting a new bath, or rebuilding the wall he pulled down to get at the pipes behind?

The skilled crafts associations and guilds complain about the increase in illicit work. But isn't the proliferation of working "on the black" merely a natural reaction to excessive regulation of the market?

- **Cost-benefit analysis instead of book-keeping:** It is not possible to make an exception of the state at a time when individuals and all other institutions are having to adapt to new conditions.

Germany, confronted by dramatically sharpened competition, faces three overlapping developments which combine to pose a historic challenge to its economic welfare

Progressive tax rates have led to an insidious increase in the state's share of gross domestic product, and at the same time the obligation to use tax revenues economically has been put to one side.

Special interest groups infest the parliamentary environment and have found ways, out of public view, of gorging themselves on the taxation honeypot. The jungle of new legislation grows as every generation of parliamentarians responds to the perceived need to justify its existence. Party political democracy is stuck fast in a tangled web of interests.

How can the excessive growth of state involvement be contained, and how can we ensure its internal efficiency? This is not a matter which can be resolved by better book-keeping: it would be far more effective if every large state spending project were subjected to a cost-benefit analysis.

The profitability criteria of the market economy can in many instances be applied effectively to governmental regulatory measures. Consider environmental protection: in Germany we try to protect the environment by prescriptions which lay down technical standards and procedures for business activities which burden the environment.

These standards are inefficient because while they present no problems for some companies, they impose conditions on others which cannot be fulfilled. The application of the so-called "bubble concept" in the US demonstrates that you can have cheaper and more efficient environmental protection. The concept is based on limited geographical areas – the bubbles – within which tradeable pollution licences permit the transfer of pollutant discharges between the companies operating within the bubbles.

Improving the efficiency of the state also involves letting light into the legislative jungle. Rather as Bavaria has done in drastically cutting its building regulations, all legal systems need to be thinned. A secondary goal here would be to transfer more responsibility to individual citizens.

- **Responsibility' self or state?** Reinforcement of individual responsibility is also a necessary part of the reforms to the social welfare system. The state cannot be responsible for every slight mishap or loss of earnings. In order to avoid any misunderstandings: no-one wants to sacrifice social welfare. But it has to be acknowledged that the German system is on collision course with every principle of efficiency in the book, and is no longer affordable in its present form.

The essence of the "social state" lies in the insurance cover it offers its citizens. Accordingly, as with every form of insurance, state protection reduces the insured person's incentive to make personal efforts to reduce damage or risk. In the end the benefits of insurance fall not only on those who have stumbled into difficulties through no fault of their own, but also those who failed to bother to take any precautionary measures.

The private insurance industry solves the problem generally by offering partial-cover contracts under which the insured accepts responsibility for part of the risk. Transferring this technique to the social welfare system will increase both its efficiency and the popular sense of responsibility.

An obvious example is the case of the much-discussed *Karenztage* system of funding sick pay. [The principle is that workers staying at home through sickness should not be paid for the first day or days, thus ensuring that people with minor illnesses, or hangovers, think twice before taking time off.]

Unemployment insurance can also be made more efficient in similar ways: the interest among employees and employers in reducing joblessness can be strengthened by transferring some of the financial and management burdens associated with the problem to the so-called social partners which negotiate wages pacts. In principle there are two extreme ways of arranging unemployment insurance: a wholly centralised form as we have now with the Federal Labour Office in Nuremberg, and a fully decentralised version comprising a multiplicity of smaller insurance schemes organised on sectoral basis or according to regional pay scales.

The optimal answer certainly does not lie in the marginal solution chosen in Germany. But we might consider, for example, a system in which only a portion of the responsibilities and contributions remain with the federal labour office. A further portion could be distributed to special funds established for individual industrial sectors and regions which would then be responsible for managing their individual affairs with their own budgets.

The effective insurance cover against structural unemployment would be somewhat reduced in this construction. But I believe the jobless total would fall because there would inevitably be more moderate pay settlements which in the end would reflect a better balance between the interests of the employers, the employees and the unemployed.

- **Shares instead of pay:** Whatever else happens, moderate pay deals will be forced on the market in future. You do not need to be a prophet to see that more than 10-fold pay differentials such as we have in the European Union are not sustainable.

That means German wages must undergo considerable adjustment: at the very least they cannot continue to rise as quickly as they have until now.

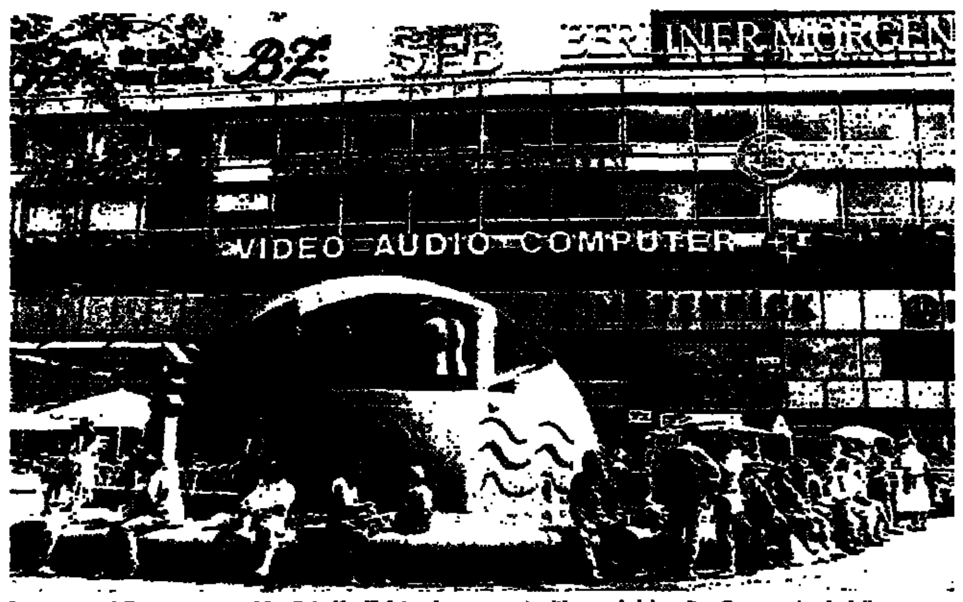
The development of Germany so far has been characterised by the shrinking labour force's ability to demand steadily increasing scarcity premiums while economic growth allowed the accumulation of ever more capital. Although the availability of human labour hardly increased, the sum of earned incomes in general terms grew just as quickly as gross domestic product and investment earnings.

This will change in future. According to everything economists know about competitive processes, future growth in the German economy will be marked by a far-reaching uncoupling of investment and earned incomes. Any distribution policy seeking to fulfil its aims via pay increases will provoke mass unemployment which would be a far greater threat to the social peace than any change in the way earnings are distributed.

One promising solution might involve changing the distribution of wealth to the benefit of wage earners. There are many possibilities for increasing property ownership among employees, and pay policy has an especially important role to play.

The motto for pay talks for the coming years should be "Savings not cash" *(Sparlohn statt Barlohn)*. If pay rises are paid in share certificates rather than in cash, the advantages are not limited to improved liquidity for the companies. The employees benefit too: with the right to dividends and profit-sharing they gain a second income stream in addition to their wage or salary.

☐ *The author is chairman of Bayerische Vereinsbank*



The Zoo and Europea area of Berlin's Kurfürstendam: opportunities and risks after Communism's fall


Dr Albrecht Schmidt

GERMAN ECONOMIC INSTITUTE FORECASTS

	West Germany			East Germany			Federal Republic		
	1993	1994[1]	1995[1]	1993	1994[1]	1995[1]	1993	1994[1]	1995[1]
GDP[2] % change	-1.7	2.0	2.5	5.8	8.5	8.5	-1.1	2.5	3.0
Nos. employed ('000s)	28,994	28,650	28,725	6,273	6,300	6,375	35,267	34,950	35,100
Un-employed ('000s)	2,270	2,560	2,525	1,149	1,160	1,075	3,419	3,720	3,600
Un-employment rate %	7.3	8.3	8.2	14.8	14.9	13.9	8.8	9.6	9.3
Inflation %	3.2	3.0	2.5	8.4	3.5	2.5	3.9	3.0	2.5

[1] Estimates from majority of institutes [2] In 1991 prices

Sources: Federal statistics office, Bundesbank estimates

Coal, work security: miners at Bergkamen in the Ruhr district of north west Germany protest against impending closures Picture: AP Photo

Fuel and power monopolies are under scrutiny, writes **Judy Dempsey**

Big is no longer beautiful

There is a consensus in Germany that the country's energy sector needs sweeping reform to sweep away outdated practices.

But there is no consensus about how the sector can be prised open to outside competition in a which would lead to de-regulation and liberalisation.

It will be the task of the new coalition government to try and attain that consensus.

Across Germany's energy sectors – electricity, gas, and coal – decades-old practices continue to exist. Take electricity. The large utilities, led by RWE, Bayernwerk and PreussenElektra, function within the *demarcation and concession* system whereby they have exclusive rights to supply the municipalities. The gas industry enjoys a similar monopolistic position. This has the effect of guaranteeing security of energy supply, but at the same time, it restricts choice, including price, for the municipalities and the consumer.

A challenge against this system has now been mounted by Kleve, a small town on the Dutch border, which wants to end its exclusive contract with RWE in a bid for cheaper, alternative and independent energy, from across the Dutch border if necessary. The case has been referred to the European Commission. The outcome will be watched closely by the industry.

But the structure and price of German electricity – among the highest in Europe – are also influenced by the practice of allowing electricity companies are permitted to collect a levy – the so-called Kohlepfennig – from the consumer to help finance the use of the high cost German coal.

The Kohlepfennig is tied to the Jahrhundert Vertrag, an agreement between the coal and electricity industries in Germany covering the amount of domestic coal the utilities undertake to burn for the remainder of this century.

German coal prices are higher than world coal prices – at current exchange rates, world coal prices are about DM80 per tonne but the German electricity companies pay DM280 per tonne for German coal to make up for the cost of imported coal. More than 40m tonnes of coal are subsidised by the Kohlepfennig.

Phasing out of the Kohlepfennig would have social political consequences: it would affect domestic coal production output and eventually drain support from the opposition Social Democrats, whose constituencies are rooted in the coal regions. Yet the SPD also realises that it is facing pressure from industry for lower electricity prices, and is aware that *the annual DM8bn* required to subsidise coal continues to put a strain on the budget deficit which is over DM68bn.

It is not only the coal industry which is under pressure to become competitive. There is growing pressure on the electricity and gas utilities to consider how far they are prepared to introduce Third Party Access (TPA) which would allow outsiders access to their distribution grids.

Mr Günter Rexrodt, the economics minister, has proposed a comprehensive reform of the energy sector envisaging some form of TPA. In October 1993, he unveiled a draft energy law intended to replace the 1935 Energiewirtschaftsgesetz, or energy law.

The draft legislation proposed that operators of the electricity or gas grid, upon whom third parties are dependent for transportation, must not unreasonably hinder those seeking contracts for TPA. However, refusal to grant such TPA is not considered unreasonable in several situations:

- if the capacity of the line for TPA is insufficient;
- if no appropriate compensation for TPA is offered;
- *if the secure supply to other* customers of the operator of the line for reasonable conditions is rendered impossible through TPA;
- and if, in the case of gas, a curtailment of supply on international markets occurs.

So far, *Mr Rexrodt has* been unsuccessful in pushing this legislation through because of opposition from within the government itself, and from the utilities and other related institutions.

For example, the Federal Association for Gas and Water (BGW), *supports in principle* the idea of TPA, but only if it is reciprocal. "Germany cannot go it alone," argues Mr Martin Weyand, an energy expert at the BGW. However, Mr Weyand and the BGW believe that the consequences of TPA and the abolition of the principle of exclusive service areas would have the following results:

- inequality of opportunity. Foreign gas companies would be able to supply the German market while foreign markets – particularly France – would remain inaccessible to German gas companies;
- threat to security of supply. The system of long-term supply *contracts* used *throughout* Europe, which consists of long-term supply contracts with high take-or-pay obligations, could no longer be applied. However, short-term contracts would not be a suitable alternative and would not guarantee secure, area-wide *supplies to customers*;
- small consumers and medium-sized businesses and rural areas would be hit;
- the obligation to connect and guarantee supply could no longer be met;
- expropriation of private investment. Those companies *which have undertaken* long-term investments could lose the right to dispose of their own property and it is unclear if there would be a compensating mechanism.

The Verband der Industriellen Energie-und Kraftwirtschaft, the association for industrial energy, wants greater competition because it believes it would lead to lower prices. The VIK, headed by Mr Max Dietrich Kley, a board member of BASF, the giant chemicals group and one of the largest consumers of energy, wants third party access. Indeed, BASF, through Wintershall, its gas subsidiary, is *building a network of gas pipe* lines across Germany precisely to break the monopoly held by Ruhrgas, the country's largest gas supplier, and introduce cheaper gas prices and more competition.

But the VIK does not have the support of the Arbeitge*meinschaft Regionaler* Energieversorgungs-Unternehmen (ARE), the organisation which groups together the regional utility companies. Sandwiched between the municipalities and the large utility companies, ARE can live without the strict concession and demarcation *systems, since it would* give them greater opportunities to compete and supply on the local level. Yet they do not want TPA because they would be smothered by outside competitors.

The German government is under some pressure from the EU to deregulate. For the moment, however, there is no consensus in Brussels about how far TPA within the EU should go – while the UK staunchly defends wide liberalisation, France favours the single-buyer model which would allow one utility to import, sell, and distribute electricity in the national market. "This would mean that the national market in France would be *blocked by its own companies,*" a BGW official said.

Thus, without consensus either in Brussels or within Germany, it will be up to the incoming Bonn coalition to force the pace.

Christopher Parkes on Lufthansa's re-fit

From ugly duckling to swan in three years

The evolution of Lufthansa from ugly duckling to swan over the past three years is by common consent the most successful German restructuring story yet to emerge from the turmoil of the recession.

The international investment community showed its approval in late September, subscribing with enthusiasm to a rights issue and an offering from the federal government's shares which shrank Bonn's stake from 52 per cent to 35 per cent.

To judge from the mood among investors, the government might have disposed of its entire holding in one swoop, but regulatory requirements – not to mention the prospect of the government's getting a fatter price in future – mean they will have to wait.

Expectations of a rising Lufthansa share price are based on confidence that the airline's management will keep the rationalisation and cost-cutting process moving at pace, plus the effects on routine operations of the international economic recovery.

Chairman Mr Jürgen Weber, who has kept all of his promises so far (in fact the turnround from the brink of disaster took only around two years instead of the five he expected), is in no mood to let go of the reins now. He only recently gave a hint of how serious the company's condition was when he took over. "Only a few people knew really how bad it was, and we could not say anything," he said. "There were times when I got up in the morning and knew that we would lose another DM4m today."

While the government gets *on with preparing for the final* stage of privatisation, promised before the end of next year, the group's management continues working towards its long-term objective of displacing British Airways as Europe's premier airline.

The "passenger-friendly" tone of the German flag-carrier's latest advertising is the most visible indicator of this ambition. But the most audible is Mr Weber's constant refrain that the cost-savings and quality improvements must continue at every level.

Accordingly, the entire DM1.2bn raised in the September rights issue will be used to pay off bank borrowings run up by the previous manage*ment which spent heavily* anticipating the completion of the single European market while simultaneously failing to anticipate recession. The group plans to halve its net debt to DM3bn by 1997, saving DM200m a year in interest charges, while Mr Weber has other cost savings of DM500m in his sights.

The first stage of restructuring programme introduced by Mr Weber shortly after his appointment in late 1991 was aimed at reducing manning and labour costs. *Old hierarchies* were split up, pay was frozen for one year, working hours were increased. Pilots agreed to a 7 per cent increase in flying hours, and the end of easy-going times was underlined when one of their number was fired after refusing to take off because his lunch was not on board.

Luxuries such as the group's Cologne headquarters were cut in a *sale-and-leaseback deal*. Fringe interests such as hotel management were thrown out

Chairman Jürgen Weber

as stakes were reduced in the Kempinski and Penta hotel chains. As a result, in the 24 months to June this year, costs were cut 15 per cent and productivity was increased more than 30 per cent.

The second stage, introduced this year, is intended to reduce *costs by a further 20 per cent* by 1997. A large proportion of these economies is likely to come not from the direct efforts of Mr Weber and the main board, but from new, independent management teams assembled to run the new-look Lufthansa group, *plans for which emerged on* the eve of privatisation.

Group cargo operations plus the internal service divisions, aircraft maintenance and information technology will be hived off as separate joint stock companies on January 1. They will function as independent profit centres, alongside the main passenger airline business, and LSG Catering and Condor charter services *which are already run as free*-standing businesses.

The result will be a wholesale restructuring of the classic German "pyramid" management structure – where virtually every decision is made at the apex – which will leave the *main* board in charge of group strategy and the passenger airline, while fostering entrepreneurialism in the other *companies*.

They will be expected to seek out new business and customers apart from Lufthansa *in the* world market and, as the airline's internal newspaper said, counter cost pressures with "greater flexibility" than is available to them under the existing group structure.

As an indicator of the possibilities open to the offshoots, the IT business, to be named Lufthansa Systems, is to be launched in concert with the General Motors subsidiary, *EDS, which* will hold a 25 per cent stake and share management control. This suggests similar arrangements with globally-active partners are desirable for the other fledglings and in the core business itself, where two candidates are already waiting in the *wings – partners and code*-sharers United Airlines and Thai Airways.

Amid all the brouhaha over the way the board mastered the recession and rebuilt the airline, most excitement has stemmed from the formation this year of strategic alliances *with United and Thai* which gave Lufthansa the global reach necessary if it is to stage a realistic challenge to British Airways.

All that is lacking, analysts say, is for the deals to be cemented by cross-shareholdings, an issue which all three sides have said may be addressed in future.

When that might be appears to depend on Bonn's success in *its efforts* to persuade its European Union partners to amend union legislation under which more than half an airline operator's shares must be owned by European individuals or institutions. This was one of the reasons for using the book-building technique in the *recent placing – to allow* careful selection of investors – and excluding the US from the offer. According to the government's own timetable, change will be needed before the end of next year when it has undertaken to dispose of all its remaining shares, which are forecast by then to be worth well over DM3bn.

With the first tranche of the privatisation of Deutsche Tele*kom due almost immediately* afterwards – and expected to raise at least DM10bn – success will depend on Bonn's ability to spread its offerings as widely as possible across the global capital market.

Privatisation thrust is renewed, writes **Michael Lindemann**

Local government targeted

Mr Peter Hintze, the general secretary of the Christian Democratic Union (CDU), the largest of the three parties in Germany's centre-right coalition *government*, did *not* take *long* to come to the point.

Minutes after emerging from the first session of talks between the CDU and its two coalition partners to shape a new coalition programme he was talking about the need for more privatisation.

The government, Mr Hintze said, would trim the federal bureaucracy by 1 per cent a year – about 14,000 jobs – and cut back the excessive amounts of red tape as part of a drive to modernise Germany.

However, while Chancellor Helmut Kohl's new government has vowed to maintain the momentum of privatisation, most of what still needs to be done is in the hands of Germany's 16 Länder (or state) governments and reaches down to local councils across the country who are under growing pressure to contract out an array of services from waste disposal to parks management.

Since coming to power in 1982 the CDU-led government has drawn in its tentacles and pushed many industries and services into the private sector, raising DM11.6bn in the process. Lufthansa, the national carrier, has been privatised. The railways have been turned into a joint stock company as a *first step* to privatisation and Deutsche Telekom will be listed on the stock exchange in 1996.

"The privatisation of conventional industry is basically finished," said a senior finance ministry official. "You need a magnifying glass to find any holdings we still have in larger companies."

The government has said it will now redouble its efforts to get the state governments to sell their industrial holdings and examine new models, like private motorways, which would enable them to function more efficiently.

Leading the way among the states is Bavaria, one of Germany's richest states, which last year announced an ambitious new initiative to sell off its holdings in a variety of companies. The state government has already raised over DM3bn and hopes to bring *together another DM2bn*, money which will almost all be invested in new technologies.

Mr Theo Waigel, the finance minister who himself comes from Bavaria, rarely misses a chance to sing the praises of his party brethren in Munich who have been setting the *example he wants other states* to follow.

The frontrunner is Bavaria which last year said it would sell its state holdings in a variety of companies

However, poorer states like the Saarland and the city state of Bremen, where unemployment is relatively high, feel duty bound to prop up limping industries with state funds.

The state of Lower Saxony is setting another bad example by holding on to its 20 per cent in the car maker Volkswagen and much of what could not immediately be privatised in eastern Germany was taken over by the respective state governments via *Beteiligungsgesellschaften* or state-owned companies created to manage shareholdings in strategic companies such as Jenoptik, the well-known Thuringian *optical* instruments manufacturer. "The Länder are not overly inclined [to privatise]," said Ms Barbara Eckrich, of the finance ministry.

There is hope yet. As a senior finance ministry official points out, the reason most states and councils will make further efforts to privatise is because they are running out of money. The federal government, for instance, announced earlier this year that it would only pay unemployment benefit to people who have lost their jobs for a maximum of two years. Thereafter they will receive so-called social assistance which will be entirely funded by local governments.

The smaller budgets, coupled with a realisation that many privatisation models developed outside Germany do actually work, means that the country's traditional penchant to have civil servants do everything is beginning to wane.

The process has been helped considerably by the Treuhandanstalt, the state-owned agency charged with privatising east Germany which will be wound up at the end of this year.

Faced with a shortage of *funds* and confronted with unheard of difficulties involved in privatising a whole country, the Treuhandanstalt developed a *variety of new models* for local government, setting an example which has made privatisation much more palatable than it would otherwise have been.

Some sewage plants, for instance, are now operated privately, including one in the east Thuringian town of Altenburg where about 50 companies competed for the contract, a process which enabled the local council to make considerable savings.

On a national level, the government in Bonn meanwhile *has pushed through* reforms which allow private employment agencies to compete alongside the state-owned agencies in the hope that competition will offer better services to people seeking jobs.

However, the government has not made all the progress it has wanted to. In the past state and local governments were allowed to fulfil their tasks by means of publicly-owned companies or authorities. Now a new law will require them to *prove that* their duties must be carried out by a state-owned entity; otherwise, the contract must go to a private operator.

But just weeks before the October elections, the Bundesrat, the upper chamber of parliament which represents the *16 Länder, threw out the new* law shifting the so-called burden of proof. The government has vowed to push the amendment through early in the next session of parliament but the setback is an indication of how difficult it may be to force the Länder, many of which are run *by the left-wing Social Demo*cratic party (SPD), to privatise.

Meanwhile the government will press on to privatise as much as it can of what is left in its care.

The finance ministry is mulling over plans to sell institutions such as the famous Max Planck Institute and other public research facilities. And the organisation which runs Germany's 350 motorway service *stations* is being restructured and renamed and will be sold off next year.

Work is also continuing on *technology to* introduce tolls on motorways, a first step towards wholesale privatisation. Since 1990 the government has also sold *about 9,000* flats and houses which used to belong to foreign armed forces stationed in Germany and it is trying hard to make the thousands of hectares it still owns more attractive for developers, including discounts of up to 50 per cent from the purchase price if the land is used for approved council housing.

Judy Dempsey records the Treuhand's high-speed achievements

The sale is nearly over

Four years ago, the Treuhand, the world's largest privatisation agency, vowed to complete its operations by the end of 1994.

Set up to sell privatise the businesses of former communist eastern Germany, the Treuhand then had on its books 13,700 state-owned enterprises, together with 25,000 restaurants, hotels, pharmacies, bookshops and cinemas, and 40,800 pieces of land.

Its forecast seemed hopelessly ambitious. However, despite the enormous scale of its portfolio, the agency has adhered to its timetable. Come the new year, the Treuhand, which east Germans, at least in the early days, hated with a vengeance, will cease to exist.

But this does not mean its task is ended. Although most of its work has been completed, a new structure, which will begin its operations on January 1 and will be entrusted with privatising the few remaining companies in its portfolio. Part of the finance ministry, it will be called the Beteiligungs-Management-Gesellschaft Berlin. The BMBG, as it is known, will have an administrative budget of DM5m and will be divided into three sections.

The first section will look after about 100 companies with more than 20,000 employees. So far 80 of these enterprises have been placed under the so-called Management KGs, companies which are run by west German managers who have a free hand to restructure them and prepare them for privatisation.

Separate from the Management KGs is a small group of partly privatised companies in which the Treuhand holds a stake, or companies about to be privatised. These include the SKET machine-building and engineering complex in Magdeburg in the state of Saxony-Anhalt; Eko Stahl, east Germany's largest steel mill in Brandenburg, of which a part is being sold to Cockerill-Sambre, the Belgian steel producers; and Kali und Salz, the potash mines in Thuringia.

Also under the BMBG is a section called the Auslaufaktivitäten, which will supervise the completion of environmental clean-ups and land reclamation, particularly in the lignite, or brown-coal fields. A small section within the BMBG will look after the financing and legal issues, as well as relations between the European Union and the five east German states.

The Treuhandanstalt building, east Berlin: it is almost closing time — Picture: Tony Andrews

Then there is the contracts department, which monitors all current investment commitments and job guarantees. This department will remain under the privatised Bundesanstalt für vereinigungsbedingtes Sondervermögen (BVS), while the Liegenschaftsgesellschaft der Treuhandanstalt (TLG) will continue to exist for some time until it has completed the privatisation, or renting, of east Germany's land and forests.

All told, the successor to the Treuhand will employ 45,000 and will have a budget of DM8bn from 1995 until 1998. The total deficit over this period will amount to DM45bn-DM55bn, which is already part of the Treuhand's total debt of DM270bn.

The Treuhand's rapid pace of privatisation is illustrated by the statistics. By the beginning of October 1994, only 354 of the 13,781 former communist enterprises remained on its books. The entire retailing sector, including the small shops, cinemas, bookshops and pharmacies, had been quickly privatised in 1991 and 1992.

The agency says it has secured investment commitments exceeding DM206bn, guarantees of more than 1.4m jobs, and proceeds from sales of nearly DM65bn.

But the tax payer will have to carry the Treuhand's DM270bn debt for many years to come. The debt has arisen because of the Treuhand's philosophy. "We actually bought management for these enterprises, rather than sold the enterprises," Mrs Birgit Breuel, the outgoing president of the agency, repeatedly explained.

Essentially this meant that in order to attract investors the Treuhand had to pick up old debts and loans from east German enterprises which by the end of 1994 will have totalled DM80bn. The agency had to provide an additional DM15bn for capital increases, a further DM66bn for guarantees which provided the enterprises with liquidity, and an additional DM8bn was allocated by the Treuhand for enterprises that were unable to finance lump-sum severance payments on their own.

With such a large debt, the question remains whether the Treuhand will have created the conditions for a thriving privatised sector which will not only expand but will help absorb some of the unemployment which officially is running at 15 per cent. Unofficially it is 35 per cent when short-time work, job creation and retraining schemes are taken into account.

The omens at present do not appear bright. The investment commitments and job guarantee contracts undertaken by investors have been too ambitious. "It is true that their expectations about finding markets were too high," said Mr Heinrich Hornef, the Treuhand's financial officer. As a result, Mr Hero Brahms, a Treuhand board member, said that the agency's contracts department is at any one time renegotiating 10 per cent of all contracts. "We do everything possible to extend the timetable for investment commitments. The thing we don't want to do is to buy back enterprises," added Mr Brahms.

Nevertheless, many contracts for job guarantees include an obligation by the investor to employ short-time staff, even if there is no work available. The result is that this has delayed an increase in productivity, which is still extremely low in the steel, machine-tool, and scientific instruments sector. In these cases, productivity is still 40 per cent of west German levels, thereby pushing up labour unit costs in the east. Last year, GDP per employee in eastern Germany was 46 per cent of the level in the west, but per capita wages and salaries rose to 70 per cent. In short, eastern unit labour costs are 44 per cent above those in west Germany.

Another problem for east Germany's privatised sector is that it is not yet competitive enough for the export market. The Bundesbank, Deutsche Bank and the Berlin-based DIW economics institute have all shown that east Germany still contributes only two per cent to Germany's total Gross Domestic Product. "The export potential of the east German economy still remains low and this sector has not yet come out of the trough," said a recent Deutsche Bank Research report.

The share of exports in aggregate demand, including deliveries to eastern Germany, is one-fifth, compared with west Germany's one third. And of total domestic spending, a significant part is spent on imports, which are still almost as high as GDP.

This implies that east German output only covers slightly more than half of aggregrate demand.

Finally, the privatised sector remains seriously undercapitalised. A special fund was recently set up by the finance ministry and the east German states to extend fresh capital for investments and marketing. But this problem is expected to remain for some time.

Treuhand officials think there is a bright side, however: the east German economy is expected to grow by about eight per cent next year, although this increase is coming from a very low base – the region's GDP fell by 30 per cent between 1990 and 1992.

But any economic upswing is crucial for the Treuhand whose officials admit that the real test for the agency is when the investment commitment and job guarantee contracts end. When they do, managers will be given a free hand to reassess their labour costs. That will inevitably affect their decisions about reducing or increasing the work force. If the economic upswing continues, the Treuhand might be able to say it has created conditions for a vibrant privatised sector. But no one is placing bets. Just as few believed the Treuhand would cease to exist after 1994.

■ Profile: BIRGIT BREUEL

Exit the liquidator

Treuhand chief Birgit Breuel

MRS BIRGIT BREUEL is particularly fond of three public comments which she made in her years as head of the Treuhand agency, which has privatised, liquidated or rationalised the former state properties of the German Democratic Republic.

Her first was her description of how she started work at the agency in October 1990. "We had very few experience people. We had no rules. We did not even have a list of companies, let alone balance sheets," she said.

Her second bon mot concerned the Treuhand's philosophy: "Our aim was not so much to sell the enterprises, but to buy management for the east German enterprises."

But her most famous (or notorious) comment was in reply to journalists' questions about about her past, her future or about sensitive investment contracts. "No Comment. I do not have to answer that question," she would say.

Recently, however, she has suddenly become more forthcoming. This is not surprising. With the Treuhand due to wind up most of its work by the end of the year, Mrs Breuel is preparing to try her hand at something new, as Commissioner General of the World Fair Expo 2000 to be held next year in Hanover.

It will be a relief from the daily grind of the Treuhand where Mrs Breuel, a former finance minister of Lower Saxony, has put in at least 12 hours a day. "She comes into the office at about 7.15 and leaves between 8pm and 9pm," a colleague says. "And when she leaves, she carries a big bag with her – full of work."

Mrs Breuel, who read politics at Oxford University, does not drink, smokes moderately, and lives in a small 75 square meter apartment in Mitte, the heart of east Berlin, with a view of the Brandenburg Gate. "She goes home to her family at the weekend, but more often than not, her husband and two sons visit her," her colleague added. Her third son died from cancer in December 1990, three months after she joined the Treuhand board.

Her commitment to the Treuhand meant foregoing many official functions. Indeed, when Queen Elizabeth visited Berlin in 1992, Mrs Breuel, who had been invited to one of the receptions, *politely declined. "She stayed* in the office because she work to do," her colleague said.

In the early days of the Treuhand's existence, east Germans loathed the agency because it closed so many factories and sharply reduced factory manning levels. Some foreign investors saw the Treuhand as a west German mafia intend on keeping foreign investors out of east Germany.

Politicians blamed it for the ills of the east German economy. Mrs Breuel herself admits it was a convenient scapegoat. "But no politician could have taken our decisions," she says.

The end of her stint at the Treuhand means that Mrs Breuel will perhaps have more time to pursue her hobbies, such as gardening. With a little luck, she might have more time to do this after December 30 of this year, her last working day at the Treuhand.

Judy Dempsey

Workers in Chemnitz (formerly Karl-Marx Stadt) protesting in 1992 at the closure by the Treuhand of largescale places of employment in east Germany Picture: AP Photo

Eastern chemicals are saved from extinction, says **Judy Dempsey**

Survivors from the flood

East Germany's chemical industry has already found a place in the history books and in novels.

In April 1936, as part of his re-armament and industrial programme, Hitler created a giant synthetic rubber manufacturing complex in Buna, now in the state of Saxony-Anhalt. Production started a mere seven months later. By 1944, the Buna plant was producing 6,000 tonnes a month and meeting half the Reich's total needs.

After 1945, Buna was placed under the Soviet administration, which soon re-started production. In 1953, the industry was placed under the east German communist state. By 1990, more than 83,600 people were working in the chemical sector.

Until German unification in 1990, the chemical triangle, as it is known, encompassing the regions of Halle, Merseburg and Bitterfeld in Saxony-Anhalt, was considered one of the key sectors of the east German economy. But that sector also spewed out enormous levels of pollution, the effects of which are documented in a novel by Monika Maron called *Flugasche* [fly-ash].

As a young journalist in the 1970s, Ms Maron was sent to the chemical triangle to write an ideologically glowing report about the industry. What she found instead was illness, waste and inefficiency. After deviating from her subject – she chose to write the truth – she was duly sacked. She is now a successful novelist living in western Germany.

When the Treuhand privatisation agency took over Buna and the entire chemical industry in 1991, it was faced with a choice: to close down or keep Buna open. The decision was fundamental. West Germany had built up its own chemicals industry after the second world war, begging the question on unification as to whether a chemical industry was also needed in eastern Germany.

After the Treuhand opted to keep the region's chemical sector alive, it embarked on a massive restructuring which will cost a total of DM14bn by the time it is complete. No sooner had the agency made this decision than it was faced with another question: could the sector become competitive?

Mr Klaus Schucht, the Treuhand's board member responsible for modernising east Germany's chemical industry, has no doubts. "From a social and political point of view, we need this industry. But I have no hesitation in saying that we will make it competitive," he said recently.

After reducing the workforce by 60,000, the agency planned the following shape for the chemicals sector: Bitterfeld, Buna, and Leuna (which has an oil-refinery complex), would produce basic chemicals; Buna and Leuna would also produce polymers, a chemical substance; the cracking, a process whereby inflammable oils are obtained by dry distillation of organic substances, especially coal and petroleum, would take place at Böhlen and Leuna; the refining would be carried out at Leuna, Lützendorf and Zeitz; and the distribution would be carried out by Minol, the petrol distribution company. The aim is to secure 12,000 jobs and invest more than DM14bn in modernising east Germany's chemical industry. But it is the future of Buna, which will produce PVCs, or plastics, which will determine the success of the entire project.

The Treuhand has earmarked over DM2.8bn of investments for modernising Buna and Böhlen, the location of the cracking facility, as part of its plan to create a fully integrated petrochemical complex.

This year, Buna will have a turnover of DM800m on losses of about DM300m. But under one of the most ambitious schemes undertaken by the Treuhand, it hopes Buna will break even within five years, thanks to a partnership between Dow Chemical, the US-based chemical manufacturers, and Gazprom, the state-owned Russian gas company and the Treuhand.

Under the terms of the recent letters of intent, Dow Chemical will take a majority independent stake of Buna, and Gazprom will take a minority stake. (The Treuhand will retain 49 per cent, with the option of reducing it once the investment programme has been complete.)

Buna will produce 1m-1.5m tonnes of polyethylene. The crucial issue for making Buna competitive is the price it will pay for its energy. At present, electricity produced at the nearby power plant at Schkopau is too expensive. Mr Schucht believes part of this energy problem can be solved through Gazprom, which is seeking a 26 per cent stake in Buna, and which will give one of Russia's largest and most lucrative state-run companies a foothold in the German chemicals industry.

"We said to Gazprom that we are offering you the possibility of producing plastics in east Germany. We want its liquid gas – the C2s, C3s and C4 gases. And in any case, Gazprom has to do something with these gases at its Yamal fields [in Siberia]," said Mr Schucht. To make the entire project cost-effective, Gazprom's gas, which Buna requires, will have to be shipped to eastern Germany at competitive prices.

The Treuhand is considering two options on how to ship the 20bn cubic metres of gas needed annually for Buna. One way is via Tscherepoweck in Russia, where the C3 gases will be shipped up to the harbour at Vyborg, transported through Poland to the east German port of Rostock and then transported via a pipe line to the cracker at Böhlen. The other option is through the Ukraine, but Russia wants to reduce its dependence on the Ukraine.

"The key factor is that the transport costs cannot be higher than the prices of the feedstock in Böhlen", explained Mr Schucht. To realise this project, the Russians would have to build a pipeline at Yamal. Experts estimate the pipeline would cost between $30bn-$40bn.

Yet even if the relationship with Gazprom works according to plan, the Treuhand may still have to convince the European Commission that the level of investments it is allocating to Buna will not amount to subsidies. "The capacity is there. But we are trying to build new capacity with a lower cost structure of about 30 per cent," said Mr Schucht.

Despite the high risks, the Treuhand believes the east German chemical sector can become competitive and that its location will prove a considerable advantage once the economies of eastern Europe pick up. That is one of the reasons Dow Chemical has chosen to invest in Buna. If this ambitious, heavily-capitalised project is successful, east Germany's chemical sector will no longer carry the stigma of feeding Hitler's war and industrial machine, or being remembered by east Germans as one of the country's worst polluters.

■ WHO OWNS THE LAND

A bitter legacy of Communism

JUDY DEMPSEY recounts the battle of the title deeds

"The restructuring of land in eastern Germany has proved to be one of the most difficult processes the Treuhand privatisation agency has had to face," said Mr Otto Bammell.

As a senior official at the agriculture ministry, Mr Bammell has seen how property has pitted east German against west German, revived old family feuds, and has convinced many experts that the German government's decision to allow restitution before compensation in 1990 may now have been a mistake. "We have the law. We have to make the most of it," said Mr Bammell.

Under the terms of the unification treaty, former Nazi victims and those whose land was confiscated by the Nazis have full right to restitution and compensation. This right also applies to people whose land was confiscated by the communists between 1949 and 1990.

When, in late 1990, the Treuhand started applying the law to agriculture in a bid to privatise 1.2m hectares of east German land, it soon ran into difficulties.

At that time, the agency had two aims. It wanted to restructure the region's agriculture, which meant breaking up the Landwirtschaftliche Produktionsgenossenschaften, or LPGS, the large cooperatives, and the Volkseigene Güter, or VEGs, the state farms; and then it wanted to sell the property. This entailed the loss of thousands of jobs in the agricultural sector. Indeed, the unemployment rate in the countryside is in some cases as high as 70 per cent.

Soon after German unification, the agency began selling agricultural land. But many of the buyers were coming from west Germany. "The east Germans felt aggrieved. They felt there were being colonised," explained Mr Bammell.

"They had little chance to buy land because they had no capital. There was terrible tension in the countryside. We decided we had to give the easterners a chance. So we introduced a new system. We would lease land to the easterners at preferential prices," he added. The leases were based on short-term three-year contracts, or long-term 12-year ones.

But no sooner had the Treuhand embarked on this plan than its officials discovered that many questions concerning property rights stipulated in the unification treaty would have to be tackled.

For instance, the Treuhand soon realised that when it wanted to lease land to east (or west) Germans, it had to make sure that there were no outstanding claims on the property.

"In some cases, the east Germans complained that they received only short-term contracts of about three years, compared with some west Germans who managed to obtain 12-year contracts," said Mr Bammell. "The problem facing the agency was that it was afraid to extend long contracts in case former property owners had already put in a claim. What could the Treuhand do with an east German long-term leaseholder if a former owner wanted to come back?"

The Treuhand was faced with another problem. It was often difficult to ascertain who originally owned the land. The example of the LPGs explains why. These state farms were created from land expropriated by the former Soviet Union which had ruled eastern Germany between 1945 and 1949, and from small landholders who in 1952 were forced to place their plots in the LPG.

In many cases, the original land register was closed and a new one was created which stipulated that the owner of the LPG was the east German state. However, the Treuhand is now finding that former owners have been able to trace the original land registers. As a result, they are now claiming their land back.

☐ Continued on facing page

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Fields and homes near Chemnitz (formerly Karl-Marx Stadt): plenty to argue about Picture: Tony Andrews

Private scramble for land

□ Contd from opposite page

"This has inevitably slowed down the whole process of leasing land," said Mr Bammell. "If land has been leased, even for a short time, and if the former owner can prove legal title to it, then the Treuhand can allow the lease to run its full term. But once the lease has expired, the Treuhand must pass on to the original owner the rent from the leaseholder".

This sense of uncertainty about who owns land in eastern Germany has been compounded by another factor: former land owners, usually belonging to the Prussian aristocracy, whose land was expropriated by the Soviet administration.

These owners have no right to restitution but have a right to buy back their land, rent it, or, following a law passed last September, to limited compensation.

"After unification, these former large landowners hesitated to buy back their property. They were waiting to see what kind of compensation law would be agreed," said Mr Bammell. But in the process, the privatisation – and investment in east German agriculture – was delayed.

As a means of speeding up the privatisation of land, the German government gave investors priority over restitution claims. This law allows individuals wishing to buy land in eastern Germany to circumvent outstanding property rights claims if they can prove to the Treuhand that they will invest and create jobs. In some cases, this has meant that a former landowner can only get the land back if he or she can match that investment plan.

"The east Germans simply do not have the money to compete with the west Germans," said Mr Werner Loranz, an east German who, along with 14 other colleagues, farms 1,300 hectares in the state of Mecklenburg-Vorpommern.

Despite the scale of these problems, the Treuhand has drawn up 9,000 contracts which involves leasing 90,000 hectares based on short-term contracts, and a further 788,000 hectares based on long-term contracts. "I think the turmoil in east German agriculture is nearly at an end. But it has been a high price to pay."

■ TELECOMMUNICATIONS UNCHAINED

A market is born

The dynamics of the telecommunications business have once again proved irresistible, writes CHRISTOPHER PARKES.

The latest demonstration of the market's momentum occurred in Bonn in mid-September when the German postal ministry performed an unexpected about-face.

Mr Wolfgang Bötsch, post minister, setting aside objections from Deutsche Telekom and European Union colleagues, announced he was no longer inclined to delay liberalisation of Germany's monopoly on telecommunications. Instead, he favoured opening networks to competition on January 1, 1998, the date previously set by the EU for liberalising markets for telecoms services (provided through links rented from the mostly state monopolies).

In a clear signal to Paris that the unwritten go-slow alliance between Germany and France was at an end, he said Bonn would consider going it alone in the absence of consensus.

Since the deadline – early 1996 – for the first tranche of the privatisation of the existing state monopoly had already been fixed, Mr Bötsch's announcement completed the timetable for the opening of the free-market era in the German telecoms sector.

The U-turn was all the more striking in the light of the German government's earlier foot-dragging. For example, Bonn initially interpreted and applied the 1989 EU regulation allowing the transmission of speech within closed user groups in its most restrictive form.

Although the regulation was intended to allow companies to use their own networks freely for internal voice telephone services, the German interpretation said permission would not be granted for groups made up of legally independent subsidiaries.

Posts minister Wolfgang Bötsch

Only under pressure from eminent companies such as BASF chemicals and Colonia insurance, did Bonn finally relent: at the end of 1992. It was not until mid-1992 that the first licence for a private mobile phone service was granted to a consortium led by Mannesmann.

However, Mr Bötsch's latest statements prompted the leading private contenders for a share of the market to spring promptly into action. The energy-based conglomerates, primarily RWE, Veba and Viag, better known for their protectionist attitudes towards their electricity distribution "rights" than for their competitive instincts, strove to catch the investors' eye with the unveiling of grander and grander designs.

Veba, for example, scored something of a coup when it announced an agreement in principle with the federal railways, allowing it to lay its cables and optical fibres along the national track and signalling networks. The group, proclaimed chairman, Mr Ulrich Hartmann, was to invest DM6bn, create 10,000 jobs and take a 10 per cent share of a DM100bn-a-year market by 2003. Days later, RWE claimed it was to fatten its product portfolio by taking over Preussag's mobile phone business.

Supported by the influential DIHT federal chamber of trade and industry, the newcomers have since harassed Mr Bötsch increasingly with demands for access to the market even before the start of 1998.

The pressure from the private sector for "freedom now" stems partly from the desire to spread their networks and their wings in the interests of gaining practical experience, the better to compete at home and elsewhere with established private operators from the US and the UK.

But the main attraction is the conviction that glittering prizes await the front runners. In less than 10 years, the prophets say, telecoms in all its manifestations could be Germany's biggest-selling industry, outstripping automobiles and engineering.

The scale of the prospective profits defies calculation, but even the most conservative estimates appear dramatic. For example, a basic comparison carried out in 1992 showed telecommunications sales per head of population in the US were DM960 a year compared with DM520 in Germany. Market analysts have extrapolated that this alone implies a sales "gap" of DM20bn a year to be bridged, even before additional services and products are taken into account.

Veba, for example, forecasts double-digit annual growth in some services in the period from 1993 to the end of 1997. It envisages a 22 per cent a year potential expansion in mobile telephones, 32 per cent in added value services and 15 per cent annually in cable television (excluding pay TV). By 2003, the company says, Germany's main markets will be worth almost DM100bn.

But ambition is one thing and reality is another. Despite considerable heavyweight public/investor relations work, the energy distributors' projects have failed to ignite investors' interest. One possible reason is that the proliferation of contenders and consortium partners has made it difficult to pick winners. The relatively long-term nature of most of their projects also suggests there is no need to rush.

Analysts have chosen the energy groups as the most obvious because of their existing infrastructural advantages: electricity distribution networks already equipped with copper cable or optical fibres, and experience operating extensive internal data and telephony services.

Although there will certainly be plenty of niches for service providers without networks of their own, such a role has already been rejected by the Preussag steel and engineering group, which recently sold its burgeoning mobile telephone business to RWE. But even some of those deemed most likely to succeed are taking a circumspect view.

Viag, which is reputed to have the most extensive optical fibre network – some 4,000km courtesy of its Bayernwerk subsidiary – recently excluded telecoms from a list of future "core" activities. It was placed instead among "supplementary" businesses which might in future become mainstream operations.

SALES PROSPECTS FOR WEST EUROPEAN AND GERMAN TELECOMS MARKETS (DM bn)

Sectors	Western Europe					Germany				
	1993	1998	2003	+% p.a. (93-98)	+% p.a. (99-03)	1993	1998	2003	+% p.a. (93-98)	+% p.a. (99-03)
Cable TV	6	11	15	12.9%	6.4%	2	4	5	14.9%	4.6%
Added Value Services	7	16	25	18.0%	9.3%	1	4	6	32.0%	8.4%
Data Transmission	36	55	76	8.8%	6.7%	8	13	16	10.2%	4.2%
Mobile Telecoms	14	29	41	15.7%	7.2%	3	8	12	21.76%	8.4%
International long distance speech	45	59	68	5.6%	2.9%	10	12	14	3.7%	3.1%
National long distance speech	86	104	116	3.9%	2.2%	18	21	24	3.1%	2.7%
Local speech	50	60	65	3.7%	16%	12	15	17	4.6%	2.5%
TOTAL	244	334	406	6.5%	4.0%	54	77	94	7.4%	4.1%

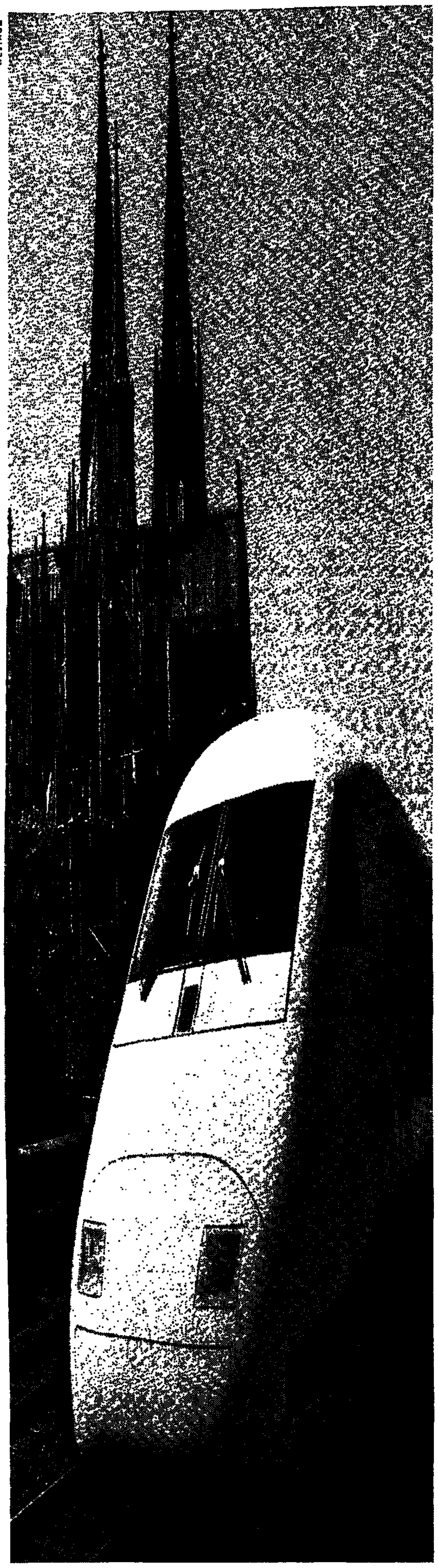
Source: VEBA

Heavyweight challengers

■ VIAG: *Has extensive cable and optical fibre network, but used almost exclusively for internal voice and data transmission. Has founded TB&D Telekommunikation subsidiary which has been linked up with the internal network of Bayerische Hypobank. Believed to be trying to extend network through deals with regional electricity distributors, but has no stakes in other telecoms businesses and nil experience of operating in private sector. Aims to win a 7 per cent share of domestic private telecoms market (DM600m-700m) by 1998.*

■ RWE: *Actively building stakes and interests in promising consortiums and partnerships, with plans to invest DM1.5bn by the end of the decade and reach break-even a year earlier. Entire telecoms interests recently bundled together in RWE Unitel AG. Analysts suggest relatively constipated progress is due to the conglomerate's bureaucratic, politicised planning mechanisms. The group is controlled by local governments from the Ruhr region, with dozens of important posts filled by civil servants or politicians.*

■ VEBA: *Would-be telecoms power house among the power companies. Plans to invest DM6bn by 2003, looking for foreign partner for its newly-formed Vebacom subsidiary which bundles together its stakes in nine separate businesses spanning the whole telecoms spectrum from cable TV to satellite communications. Veba's projects, pushed through against resistance from traditionalist board by new chairman, Mr Ulrich Hartmann. They are also being enthusiastically promoted by one of the most effective investor relations teams in Germany.*



Michael Lindemann profiles Mannesmann's Peter Mihatsch and Telekom's Helmut Ricke

Ambitious rivals for the big prize


Peter Mihatsch of Mannesmann


Deutsche Telekom's Helmut Ricke

When Mr Peter Mihatsch looks out of his first floor office in Düsseldorf he has an inspiring view of the river Rhine. Vast concrete and steel bridges tower over Europe's mightiest river which flows north as far as the eye can see.

It is an inspiring view and leaves one feeling spectator in little doubt that the world is there for the taking.

In Bonn, Mr Helmut Ricke has a far less interesting view – a cityscape of small office blocks and detached houses.

The different views from their offices reflect their contrasting styles.

Mr Mihatsch heads the telecommunications division at Mannesmann, the first German company to take on Deutsche Telekom, the State-owned telecoms operator run by Mr Ricke which is soon to be privatised.

Both men have ambitious plans. Mr Mihatsch's operation is tiny compared with Telekom, but he is looking to expand it rapidly. Mr Ricke, on the other hand, has taken Telekom into joint ventures across Europe and the globe, but knows that as competition from companies such as Mannesmann intensifies, Telekom, which still largely enjoys a monopoly, will stand to lose.

In 1990, Mr Mihatsch moved from Mannesmann Kienzle, a company which makes equipment for commercial vehicles and is part of Mannesmann, the engineering and automotive technology group, one of Germany's top 20 companies in sales terms.

He was charged with setting up Germany's first private mobile phone network, a bold new venture for a company which had become almost synonymous with steel piping.

It has been a startling success and set an example which others are racing to follow.

The division is expected to report sizeable earnings for 1994, the first full year in profit. Sales are expected to top DM1.5bn for the year, making it the fastest growing unit within the Mannesmann group.

What the pipes did for the company's image pales in comparison with its profile among millions of people reached by its aggressive advertising campaign for its D2 mobile phone network.

Mr Mihatsch's success has earned him a seat on the seven-strong Mannesmann management board but he seems far from excited about it.

The Mr Ricke chooses his words more carefully. He has to avoid upsetting the government ministers who are his masters or provoking the powerful trade unions. During a discussion about the needs of Germany's rapidly changing telecommunications industry, he pauses to consider the exact title of the new law that will be needed.

The contrasting style also reflects the fact that whereas Mr Mihatsch only has around 2,500 employees, Mr Ricke has to lead 224,000 people, many of whom realise that they may lose their jobs as Telekom is privatised.

Before moving to Telekom in 1990, Mr Ricke spent 12 years running Loewe Opta, a leading manufacturer of telecoms equipment. He had, for a while, been a member of the technical council which advised Telekom and was singled out by the then post minister to take over as chief executive.

The job has often been described as one of the most difficult in Germany, requiring the incumbent to dodge and weave among political minefields and showdowns with the unions while all the time ensuring that Telekom is as well placed as possible to tap a fast-moving market in which the competition becomes ever fiercer.

The State's responsibility to run the telephone network used to be enshrined in the Constitution. So even the Constitution had to be changed earlier this year. The mentality at Telekom has also had to change. When Mr Ricke took over, the supervisory board – which oversees the management board – frequently found itself debating whether Telekom's national and international plans were constitutional or not.

Such distractions are no longer necessary and Telekom has been transformed beyond recognition. It will become a joint stock company on January 1, 1995 and is expected to be listed on the stock exchange early in 1996. It used to be a company focused entirely on Germany and supplied mainly by German telecoms manufacturers such as Siemens; now around 28 per cent of the suppliers come from outside Germany.

Customer service should also improve now that most Telekom employees are no longer civil servants.

Telekom has ambitious plans for international expansion: together with France Telecom it has a joint venture with Sprint, the US long distance carrier; it has taken a stake in MATAV, the Hungarian telecoms operator; has interests in the Ukraine and may become involved in the Czech Republic. Turnover is forecast to reach DM80bn by 2000, up from the DM69bn planned for next year.

Yet while others are looking forward to capturing market share, Telekom, the one-time monopolist, has to give it up. If Mannesmann and other operatorshave their way, Mr Ricke or his successor will have to surrender the cable television network to an independent company which would allow equal access for all competitors.

Even if Telekom keeps the network, the European Commission is at some point likely to allow competition from the so-called corporate networks, alternative nets built on the infrastructure which big companies such as utilities have available.

Following the success of the D2 mobile phone network, Mr Mihatsch is weighing up what he might do next.

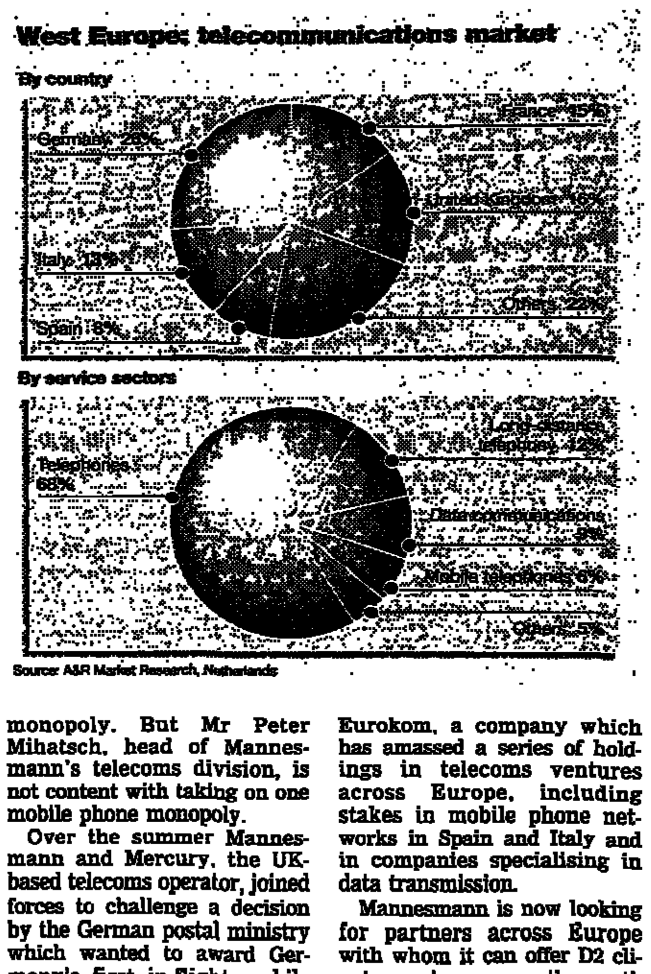
That seems to be is style: when he finished studying electronic engineering in Munich he rush into industry but preferred to do research work on plasma physics. "I wanted to step back a bit and get a better overall picture," he says.

Like Mr Ricke, he is looking abroad – to see where he can use the D2 know-how elsewhere in Europe and where Mannesmann and its partners can supply new networks.


An overseas telephone call-card holder: the choice widens   Picture: Deutsche Telekom

Mobile phone users are increasing by 30,000 a month, reports **Michael Lindemann**

How Mannesmann got in first



Source: A&R Market Research, Netherlands

Jump in a taxi in Germany and D2 is often written in large blue lettering across the car. Leaf through the many weekly news magazines and you will find the same logo. "It's my line," is the English slogan that comes with it.

D2 and the catchy jingle are the trademark of Mannesmann's mobile phone business, the first private telecoms operator in Germany which started operating commercially in mid-1992 and has signed up around 760,000 clients since then.

About 30,000 clients a month are being won over to mobile phones and the network expects to report sizeable profits for 1994 following investments of around DM3bn.

It has, so far, been an unexpected success story with Mannesmann pitting its skills against Deutsche Telekom, the soon-to-be privatised state-owned telecoms operator which operates D1, the other mobile phone net.

Where Mannesmann led, others quickly followed. Veba, the energy-based industrial conglomerate also based in Düsseldorf, has taken a stake in the so-called E-plus network, alongside Thyssen which still makes a lot of its money in steel.

Meanwhile RWE, the utility, has teamed up with Mannesmann and Deutsche Bank, Germany's largest bank, to develop a corporate network, a sort of alternative telecommunications network which would use the existing cables belonging to utilities and other large companies.

Viag, the Munich-based industrial group, is also trying to work out how it can get into the market while Veba recently announced that it was working with Deutsche Bahn, the Federal railways, to use their rail infrastructure as a basis for a corporate network.

In short, telecommunications has become flavour of the year in Germany, in no small way thanks to Mannesmann which first took on the Telekom's monopoly. But Mr Peter Mihatsch, head of Mannesmann's telecoms division, is not content with taking on one mobile phone monopoly.

Over the summer Mannesmann and Mercury, the UK-based telecoms operator, joined forces to challenge a decision by the German postal ministry which wanted to award Germany's first in-flight mobile phone service to DeTeMobil, the Deutsche Telekom subsidiary which operates the D1 network.

The court challenge is still in progress but Mr Mihatsch says it marks an important turning point on the German telecommunications market. "For the first time Deutsche Telekom didn't get a service straight away," he says with an audibly sterner tone in his voice, reflecting the resentment of constantly having to do battle with Telekom's monopoly.

Alongside Mannesmann Mobilfunk (MMO), the unit which runs the mobile network, Mr Mihatsch has created Eurokom, a company which has amassed a series of holdings in telecoms ventures across Europe, including stakes in mobile phone networks in Spain and Italy and in companies specialising in data transmission.

Mannesmann is now looking for partners across Europe with whom it can offer D2 clients services across the continent, enabling them, for instance, to have their phones repaired or exchanged.

Most importantly Mr Mihatsch intends to use the mobile phone net to carry a variety of new services.

"You can buy more than just an Aspirin at the chemists," he says in his office in Düsseldorf. "In the same way there will be different suppliers offering different services."

He is currently working on plans to couple the GSM (Global System for Mobile Communications) standard with satellite technology and provide drivers across Germany – and eventually Europe – with an array of services including navigational aides and technology which would automatically pay motorway tolls.

VDO, Mannesmann's automotive technology division, is working on the so-called black box which would give drivers access to this catalogue of new driving aides.

How soon the technology is available depends in part on political decisions to privatise motorways but Mr Mihatsch is confident that within three years the services could be available.

Alongside the new in-car services, Mannesmann is also lining up to take advantage of the expected liberalisation of the telephone network in Germany.

The competition from Veba and others who are toying with the idea of corporate networks seems unlikely to pose much of a threat to Corporate Network International (CNI), a joint venture that Mannesmann has entered with RWE and Deutsche Bank, both leaders in their respective fields.

"In the end it is all about who has the customers," says Alan Coats, an analyst at Paribas Capital Markets in London, pinpointing CNI's outstanding strength.

Mr Mihatsch expects "heated discussions" before Telekom can be made to relinquish its monopoly. Mannesmann may not want a sudden opening of the German networks – there are some suggestions that this should happen as soon as 1995 – before it and its CNI partners are ready.

"But you have to identify a milestone, and say that (liberalisation) would happen within two years. Those of us who want to invest – and not just DM2.5 but hefty sums – need security with which we can plan.

Mr Mihatsch is loath to predict how many mobile clients MMO will pick up in future. So many previous forecasts have got it wrong, he says, quoting a 1987 study which predicted that there would be 1m mobile phone users in Germany by 2000, a slight misjudgment given that D1 and D2 alone already have about 1.6m clients.

"The people compiling these studies at that time could not possibly foresee the developments," he says. "Mobile phones were thought of as VIP products, to be used by a few very rich people. Today in Sweden you have more people signing up for mobile phones than for fixed lines."

Press him a bit and Mr Mihatsch admits there will be at least 10m mobile phone clients in Germany alone by the year 2000.

By then, he says, MMO and Eurokom, which have so far consumed far more money than they have earned, will be making healthy contributions to Mannesmann's turnover and profit.

Cafe life in the university city of Bonn: studying in Germany usually takes longer Picture: Alan Harper

Student militancy sinks cash reforms, writes **Michael Lindemann**

Expensive learning curve

It is surprising how little students need to protest in Germany before they derail even relatively modest plans to reform the higher education system.

At the beginning of February this year, several hundred thousand of them braved the cold and took to the streets across the country. While in France, such demonstrations sometimes turn violent, with students pitched against the police, the German protests were a measured affair: some stopped the traffic in city centres, others organised public readings.

The focus of their wrath were government plans to inject a bit more vigour into a further education system which for years has produced very well qualified students but has recently seemed rather unwieldy compared with other similar systems.

The reforms had proposed that students would do tests after two semesters, instead of after four, to ensure they were meeting academic targets; they had also required students who were studying too slowly to pay fines.

There was no surprise about the fines: German students need on average seven years to finish their degrees, compared with an average 3.3 years in Britain.

The tests and fines were part of a package of reforms which had been debated extensively a year ago. Chancellor Helmut Kohl had convened an education summit and there had been countless other discussions to see what could be done to give students more choice, improve competition among universities and cut costs of around DM30bn for universities alone.

However, within days of the protests, Mr Rainer Ortleb, the education minister, had resigned. The plans were shelved in the run-up to the October elections and they do not seem to be a top priority for the new government which wants to avoid arguments among the three party coalition.

Under the federal system, education is largely a responsibility of Germany's 16 Länder. While they work hand in hand with the federal government, all important decisions, including financial ones, are made in the state capitals. The fact that each Land has a slightly different education policy also made it harder to reach consensus about far-reaching reforms.

Efforts to cut costs also made little headway. BAFöG, the training assistance law which ensures that around 770,000 students receive funds to finance their studies, was to have been frozen until 1996. In July, Mr Karl-Hans Laermann, the new minister, managed to increase it by 2 per cent, which was less than the rate of inflation but nonetheless a setback for the government.

Meanwhile, the university system is bursting at its seams: 1.8m students are expected to make do with 850,000 places at universities.

Since 1977 the number of new students has risen by 73 per cent, an increase in line with other industrial democracies, but while Germans are not loath to sign on, around 27 per cent of them drop out of their studies for one reason or another, according to figures from the Federation of German Industry (BDI); in North Rhine-Westphalia, Germany's biggest state, up to 38 per cent leave their studies unfinished.

Parallel to the universities Germany has since the beginning of the century had a system of vocational training offering qualifications from banking to hotel management for those not wishing to go to university.

Each year about 550,000 German school-leavers sign apprenticeship contracts with companies. Every German profession has its own training programme, lasting two or three years, and all of the 500,000 mostly medium-sized companies which take on apprentices must provide qualified instructors.

But participants in this programme are also beginning to wonder about the costs. Employers spend DM40-DM50bn a year on training and there are growing concerns that the system is also becoming too inflexible. And as German industry sheds jobs in an effort to raise productivity companies often have to turn away the Lehrlinge or apprentices who have completed their training only to find that the jobs they were promised are no longer available.

Managers too are becoming increasingly aware that the German system, admired for decades, may be losing its advantage over comparable systems abroad which are more competitive and flexible. A survey conducted by the Munich-based Ifo economics institute earlier this year, showed that 38 per cent of companies think the German standards are slipping.

Mr Tyll Necker, the BDI president who steps down next month, has been a particularly vociferous critic of the shortcomings of the further education system.

He has argued repeatedly that the system must be better tailored to the needs of industry and society in order to avoid a situation where up to 23 per cent of university graduates work in jobs where degrees are not required. "If society has to devote a large part of its resources in order to educate people then it also has to have the right to ensure that there is some sense to it," Mr Necker said.

But the momentum generated by the heated discussions last autumn has all but petered out. As part of plans to streamline the government, there are even proposals to fuse the education ministry with the ministry of research and technology, reflecting the low priority accorded to the reforms.

Advocates of the German system still say it produces more better educated people per head of population than other systems. They may be right but pressures associated with an ageing population and a lack of funds means that much still needs to be done if Germany is to preserve its comparative advantage in years to come.

The media are in the news, says **Judy Dempsey**

Viewers fear too much power in too few hands

As they voted to elect a new Bundestag, or lower house, Germans were relieved that they had at last reached the end of a mammoth round of local, state and federal elections.

For over seven weeks, television and radio devoted worthy discussions about the campaign. Some politicians said they feared the electorate was sick of the non-stop coverage.

But behind the scenes, another debate was taking place: how to re-write Germany's broadcasting law. The discussion coincides with a period of rapid change in the media where Germany's moguls and non-Germans are joining ranks or competing to increase their market share.

According to Mr Dieter Wolf, president of the country's federal Cartel Office, Germany's television – and media owner ship structure – is an oligopoly.

There are two public television channels: ARD and ZDF. These faced competition a decade ago when the German government allowed independent channels to operate. The three largest privately-owned channels are SAT1, RTL and Pro 7. The bulk of the television advertising, worth an annual DM4.8bn, goes to two media groups – Leo Kirch, whose high-tech studios are based in Munich, and Bertelsmann, Europe's biggest media group, which has joined forces with CLT, the Luxembourg-based broadcasting company.

Kirch has a 43 per cent stake in SAT1, a 25 per cent stake in Premier TV, a pay TV movie channel, a 48 per cent stake in Pro 7, a 25 per cent stake in Deutsches SportFernsehen (DSF), a sports channel, and substantial stakes in a Swiss, Italian and Spanish channel. He also holds a 35 per cent stake plus one vote in the Springer publishing house, which in turn holds a 20 per cent stake in SAT1.

Alongside the Kirch group is Bertelsmann. It holds a 37.5 per cent stake in Première TV, 38.9 per cent in RTL and has a 74.9 per cent in the Grüner+Jahr giant publishing house, as well as stakes in Stern and Spiegel, the political weeklies.

Until recently, Germany's broadcasting authorities turned a blind eye, or at least kept the debate about reforming the ownership structure of Germany's independent television channels on the back-burner. But two recent developments brought the issue out into the open.

The first was the decision by Mr Rupert Murdoch, the Australian mogul and owner of Times Newspapers in the UK, and Bertelsmann to save VOX, the television channel by taking a 49.9 per cent stake.

The other development was a major venture by Kirch, Bertelsmann and Deutsche Telekom, the state telecommunications monopoly, to create a joint venture called Media Service which will offer to manage and distribute new TV channels, as well as specialist tele communications services on Deutsche Telekom's cable tele vision network.

German and foreign media moguls are competing to increase their market share

This venture was referred to the European Commission which earlier this month ruled that the Media Service would hinder competition. The three parties are expected to return to the drawing board and revise their plans. The three partners meanwhile have insisted that "the new joint venture will not act as a broadcaster or provider of programming," and will be scrupulously neutral in its treatment of future clients, restricting itself to technical, administrative and distribution services.

All sides are also adamant that they are not seeking to create a monopoly over distribution of future digital television services in Germany. But the Cartel Office, and Germany's Medienanstalten, which consists of 15 regulators representing each of the 15 states, are sceptical. "Having oligopolies is one thing. But we have to see if there is no competition between them," said Mr Wolf.

The Medienanstalten are just as sceptical and even more critical about the ownership structures in German broadcasting. The Medienanstalten are quangos which also represent the regions and local communities. They are supposed to act as a watchdog with the aim of ensuring a variety of high quality programmes for the German consumer. They carry out this task by issuing broadcasting licences. A regulator, for example, can award satellite and cable licences, which would give a TV station access to about half of Germany's households. In addition, any station must apply to the individual regulators in each state for terrestrial frequencies.

"We want more competition. But where does the border lie?," said Mr Hans Hege, chief regulator for the Berlin-Brandenburg region. Mr Hege's concern is that the Media Service backed by Bertelsmann and Kirch will effectively monopolise the market. "The big issue is one of concentration by the oligopolies. What is required now is a new media law which would monitor and control both market and audience share."

Under current legislation, owners of independent, private television cannot own more than 49 per cent in any channel. But what some regulators want is a law which allows any individual broadcaster no more than a 35 per cent stake of the audience.

That might be hard to monitor given that audiences fluctuate. Moreover, that law would not weaken the oligopolies run by Bertelsmann and Kirch which in theory could together dominate well over half the audience share through their diverse television channels and their overlapping ownership interests.

"We have to consider all these things," said Mr Wolf. "But we have to make sure that competition between the oligopolies continues to exist," he added. Recent developments suggest otherwise.

Linde's industrial gases separation plant near Brno, in the Czech Republic: no trace of historic antaganosm

Manufacturers head for eastern Europe, reports **Christopher Parkes**

Poles and Czechs compete with the German worker

When the Polish economy finally finds a firm footing there may be room in the market for three industrial gas suppliers at most, according to Mr Gunnar Eggendorfer, a Linde group director.

At present, while the economy is anything but stable, the key metal-working industry is going into reverse, the zloty is weakening almost continuously against the D-Mark, and inflation runs at more than 30 per cent, there are more than half a dozen, slugging it out in a market which generated just DM136m in sales last year.

As a rule of thumb, Mr Eggendorfer reckons that annual sales of DM100m are necessary to keep a single industrial gas supplier occupied and profitable.

It is not a situation designed to appeal to German companies, typically risk-averse and stability-obsessed, but it is one Linde – plus competitors Aga, British Oxygen, Liquid Carbonics, Messer Griesheim and a handful of management buy-outs – may usefully learn to live with.

The lessons will come in useful when the time arrives to push further eastwards into the new markets and manufacturing bases in the former Soviet Union. But it is too soon for Mr Eggendorfer. "Everything is still too uncertain over there," he says.

Although Mr Eggendorfer and his chairman Mr Hans Meinhardt make much of the hardships and uncertainties of pioneering in the Germany's eastern frontier lands, they are equally eager to point out that all Linde's gas interests in the region – all set up or bought in the last four years business – are profitable.

Even in Poland, where on top of all the other problems sales per employee are only a third of those in the Czech Republic, Linde is making money from its core business of separating air into its component gases and packaging it for industrial users.

Since 1990 the group, also known as a leading supplier of lift trucks and refrigeration plant, has invested DM950m in the former communist east, with a good half of the total spent in eastern Germany and DM250m in the Czech Republic. The balance has bought Linde varying volumes of market share in Hungary, Slovakia and Poland.

Total "eastern" sales of DM480m last year already account for about 20 per cent of group gas turnover.

Difficult as conditions are in these markets, Linde, which decided to develop industrial gases into a core business five years ago, had no alternative to investment. While other companies making other products might be content to export into the new markets, the costs of transporting heavy gas bottles mean exports are not viable beyond a range of 80 to 100km.

It is also characteristic of the gas market that the early entrants or indigenous producers tend to take dominant market shares, effectively locking out outside competitors. Air Liquide's 75 per cent of the French market, for example, is a good enough reason for Linde to limit its ambitions to the west of its homeland.

Accordingly, analysts say, Air Liquide has kept away from the Czech market precisely because of Linde's early coup with the purchase of a majority stake – plus an option on the balance – in the state-controlled Technoplyn, based in Brno, Moravia, which has a market share of well over 50 per cent.

Apart from four German technical specialists among 740 employees, the entire management and workforce is Czech. Apart from a few curio photographs of ancient compression gear and air separators, most of the old equipment has been replaced with Linde plant imported from Germany. "But at its heart it is a purely Czech company," insists Mr Meinhardt.

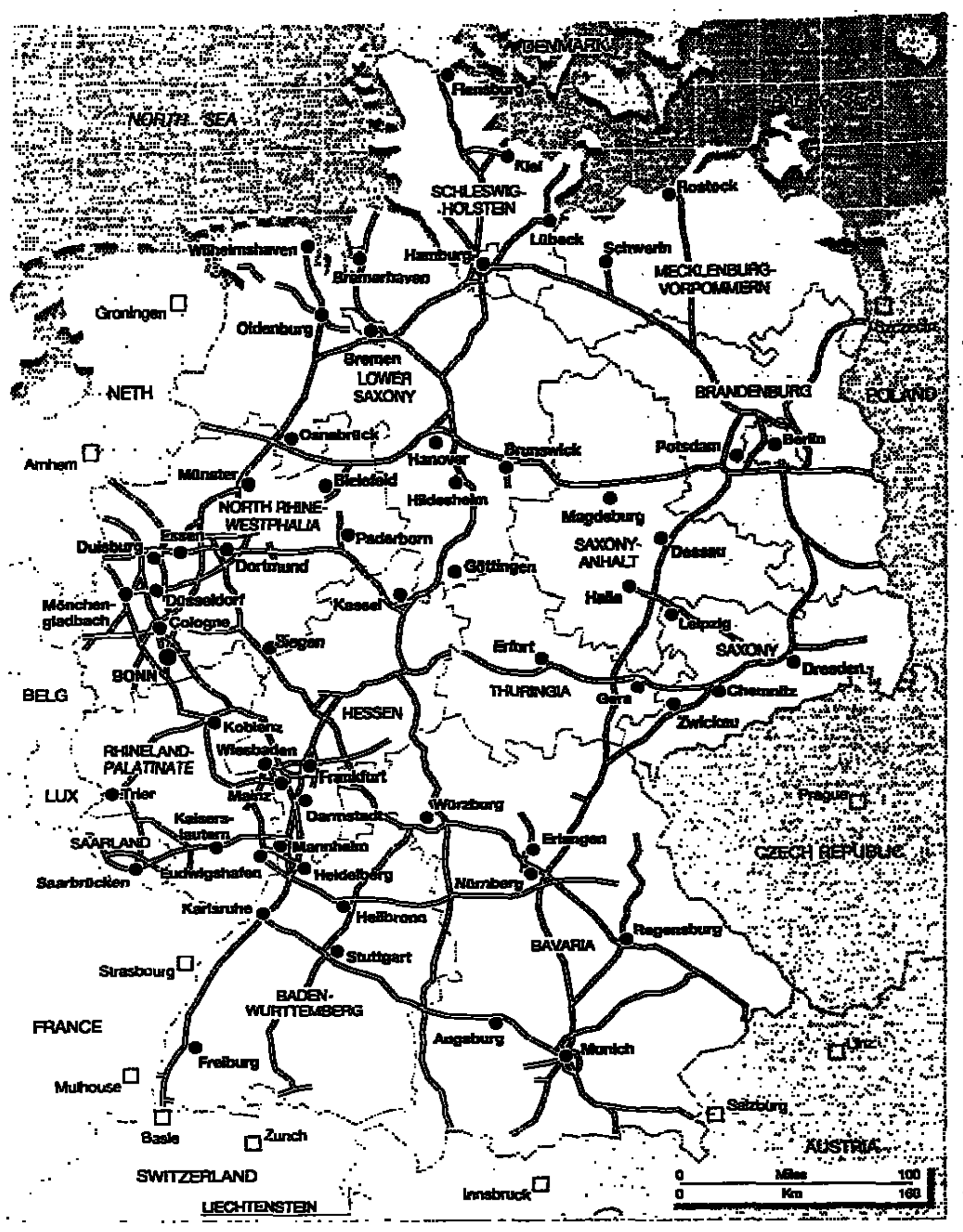
In contrast to the experiences of some smaller, entrepreneurial foreign investors, larger groups such as Linde and Asea Brown Boveri which controls a boiler engineering plant on the other side of Brno, have slipped relatively easily into professional, co-operative relationships with their Czech colleagues.

Although the ABB works has tough production and quality targets comparable with those in the Swiss-Swedish group's western works, they have been accepted just as readily by former Kombinat managers as the requirement that they should learn the group language, English.

As for Linde, Mr Meinhardt claims to be surprised at the similarity between Czech and German attitudes to work and responsibility. There is no resentment against foreign takeovers and no traces of any historic antagonism between Czechs and Germans.

"Linde has profited well from the collapse of the old order in the east," he says. "But we knew it was important to come here on a business footing and not to try to play the role of the know-it-all.

"Here, especially, we are well on the way to making yields on our investments comparable with those at home."



On the road to Prague

There is a school of thought in the German investment community which believes that within only a few years most of the advantages of manufacturing investment in the Czech Republic will have withered away, writes CHRISTOPHER PARKES.

The Linde group and Jungheinrich, its rival in the lift truck business, are unconvinced. For a total investment of DM37m they recently opened a new purpose-built factory on a 40 hectare greenfield site in Moravany, south of Brno on the Prague-Vienna road.

The joint-venture Juli plant is now being equipped and staffed to manufacture between 80,000 and 100,000 electric lift-truck motors a year – once the task of a factory in Hamburg – in a classic example of the export of German jobs and manufacturing due to unfavourable conditions at home.

The fact that from the purchase of the site to the start of production in June this year took only 16 months with none of the horrendous planning permission delays encountered in Germany was only one of the attractions.

Since building electric motors is a labour-intensive job, the Brno pay rates of DM3 to DM5 an hour are a central factor, as is the 42½-hour working week and the standard allowance of two weeks' holiday.

But Brno, renowned for its electro-technical department at its technical university and the local industry, also offers a wide range of workers and potential suppliers.

Together, the new site and workforce provide a "clean-sheet" start for a lean production project intended to cut the cost of motors by 40 per cent, reduce the number of motor variants from more than 70 to around 35, and homogenise design.

At present virtually the entire process comprises assembling components imported from Germany, but the driving logic of the Juli process is for the parts to be supplied as cheaply and promptly as as possible. It can only be a matter of time before they, too, come from Czech factories.

Peter Norman explains the significance of Frankfurt's European Monetary Institute

Chrysalis of a Bank of Europe

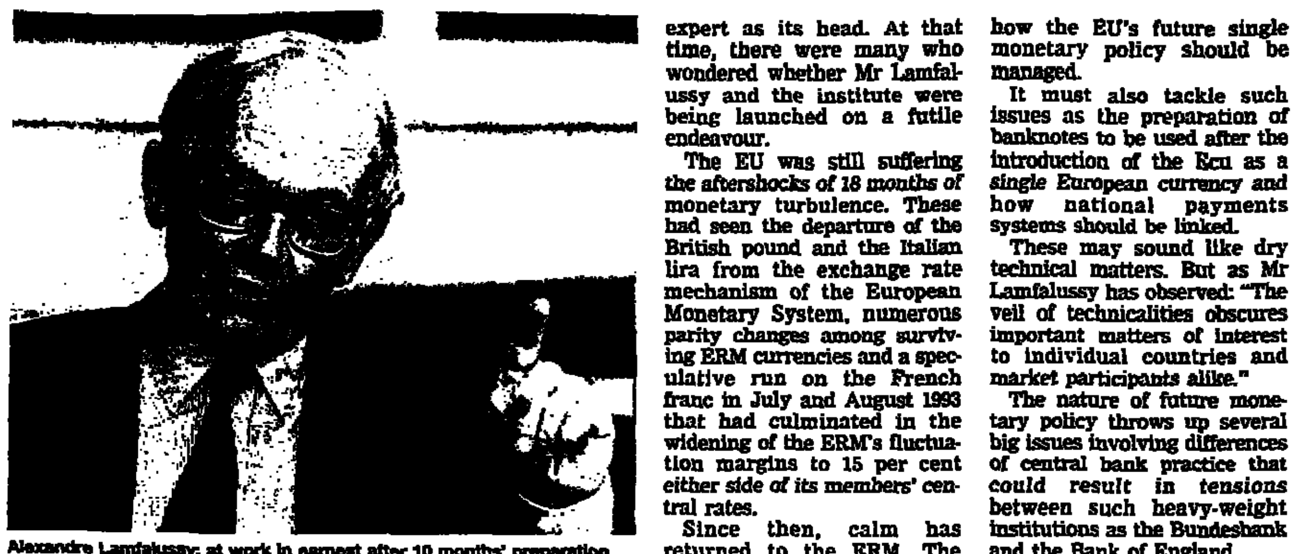
In spite of Germany's pivotal role in the European Union and Chancellor Helmut Kohl's passion for greater European integration, Germany is poorly endowed with EU institutions.

The move of the European Monetary Institute to its new Frankfurt headquarters this month goes some way to redressing the balance.

The EMI has been set up to prepare the planned European System of Central Banks (ESCB) which will be established if and when the EU fulfils the promises of the Maastricht Treaty and moves to the third and final stage of economic and monetary union, with a single currency and single monetary policy.

Meanwhile, the institute exists to strengthen the co-ordination of monetary policy among the EU's 12 central banks and promote economic convergence among member States so they can meet the tough criteria which the treaty has prescribed for Emu membership.

Mr Alexandre Lamfalussy, the EMI president, and about 75 staff have installed themselves in an imposing city centre tower block that was formerly the headquarters of the Bank für Gemeinwirtschaft. Last week's meeting in the rechristened "Eurotower" of the EMI's governing council, which comprises the EU central bank governors and Mr Lamfalussy, was a signal that the EU's newest institution had begun work in earnest after 10 months of preparation in borrowed office space provided by the Bank for International Settlements (BIS) in Basle, Switzerland.



Alexandre Lamfalussy: at work in earnest after 10 months' preparation

Mr Lamfalussy, who moved from being general manager of the BIS to take over the EMI presidency at the start of this year, has described the EMI's first task as constructing a "turnkey" central bank for Europe that is capable of operating effectively once the political decisions to go ahead with Emu have been taken.

After much haggling, European leaders bowed to German wishes and agreed just over a year ago to site the EMI in Frankfurt.

They also endorsed the 65 year old Belgian banker, academic and monetary policy expert as its head. At that time, there were many who wondered whether Mr Lamfalussy and the institute were being launched on a futile endeavour.

The EU was still suffering the aftershocks of 18 months of monetary turbulence. These had seen the departure of the British pound and the Italian lira from the exchange rate mechanism of the European Monetary System, numerous parity changes among surviving ERM currencies and a speculative run on the French franc in July and August 1993 that had culminated in the widening of the ERM's fluctuation margins to 15 per cent either side of its members' central rates.

Since then, calm has returned to the ERM. The exchange rates of the surviving member currencies have stabilised at levels close to those that existed before August 1993.

Interest rates in continental Europe have fallen and the region appears to be enjoying a broad based, non-inflationary economic recovery. According to Mr Lamfalussy, "things are not as negative as they looked a year ago". The way is clear for intensive work towards Emu, if not yet for the political decisions to take monetary union further.

The institutional framework and operating principles of the planned European central bank system have been defined in the Maastricht Treaty. It has been left to the EMI to design its organisation in detail and specify the relations between the future European Central Bank (ECB) and the national central banks that will also be members of the ESCB.

The EMI has to work out how the EU's future single monetary policy should be managed.

It must also tackle such issues as the preparation of banknotes to be used after the introduction of the Ecu as a single European currency and how national payments systems should be linked.

These may sound like dry technical matters. But as Mr Lamfalussy has observed: "The veil of technicalities obscures important matters of interest to individual countries and market participants alike."

The nature of future monetary policy throws up several big issues involving differences of central bank practice that could result in tensions between such heavy-weight institutions as the Bundesbank and the Bank of England.

The EMI will have to consider whether Europe's monetary policy should be guided by a money supply measure as in Germany or an inflation target as in Britain. If a monetary aggregate is chosen, which one should it be? Should commercial banks, as part of the management of policy, be obliged to deposit compulsory minimum reserves with the ESCB? If so, should these be interest bearing or not?

Fostering central bank co-operation is the other part of the EMI's mandate. This task, which Mr Lamfalussy considers as important as preparing the central bank, will involve building up the EMI's economic research capacity.

EU economics and finance ministers were given a foretaste of the EMI's ambitions in this area at an informal meeting of the EU's "Ecofin council" at Lindau on Lake Constance in September. Mr Lamfalussy presented the findings of a penetrating EMI analysis that demonstrated how different levels of budget deficit, variations in currency volatility, and member states' widely varying inflation records explained why they had been impacted to varying degrees by this year's bond market turbulence.

Frankfurt's financial centre: hammering out the details from the Maastricht blueprint Picture: Tony Andrews

His presentation also served as a reminder to the ministers that Mr Lamfalussy is a believer in monetary union. He says its implementation is essential to protect what has been achieved in creating the European single market. However, he doubts whether Emu can be achieved by 1997 – the earliest date in the Maastricht Treaty. Emu and establishment of the ECB could take "five, six or 10 years".

If so, the EMI, which is due to be closed down as soon as the ESCB starts operating, will turn out to be a more durable part of the Frankfurt financial scene than its designers envisaged. With a staff drawn from all EU countries (including Austria, one of the applicant countries), it should help bolster Frankfurt's credentials as an international financial centre and offset some of the shock generated by Deutsche Bank's recent decision to strengthen its investment banking presence in London.

But the EMI's role will be judged ultimately by the performance of the central banking system that is due to supplant the institute, if and when Emu occurs.

There is much to do before the EU achieves Emu along the lines envisaged in the Maastricht Treaty.

The excessively high budget deficits and indebtedness of most EU member state must be reduced to credible and manageable proportions. Europe's politicians must generate the political will to move to stage three.

Then there is the vexed question of achieving greater political union in the EU, which many economists, politicians and officials (notably in Germany) consider essential if Emu is to prove a lasting success.

Speaking in Paris recently, Mr Lamfalussy acknowledged that much was beyond his capacity to deliver. "Even if done well", he said, the EMI's preparations for Emu would "not necessarily tip the scale of the political decision in favour of moving rapidly towards monetary union."

But he made clear that he and the EMI mean business. "I shall do everything in my power to give no excuses to those who, on the pretext that preparation for the organisation of the European Central Bank is inadequate, wish to postpone the date of the political decision," he said.

Conner Middelmann assesses demand for capital

No end in sight for high public borrowings

Next year will see a sweeping overhaul of German public-sector borrowers, with familiar names disappearing and new ones appearing in their place.

However, although it will be redistributed, the financing burden will remain heavy and officials at the Finance Ministry and the Bundesbank, its issuing agent, will have to continue probing the frontiers of innovation to ensure Germany's debt finds a safe home.

As a result of the privatisation of public-sector companies and the consolidation of several funds created to finance German unification, old capital market favourites such as the Treuhandanstalt, the post office and the railway authorities will no longer issue bonds as from 1995. Some of these bodies' debts will be assumed by the government, while others will service their debts independently under a new name.

Nevertheless, public sector indebtedness is high and the country's financing and debt servicing burden remains heavy. While Germany's total public-sector deficit, including state and local governments, is expected to drop markedly from this year's level of around DM145bn as the Treuhand deficit falls away, the Federal government's deficit next year is likely to remain little changed at around DM68.7bn, compared with DM69.1bn this year. Finance Minister Theo Waigel is due to present an updated budget forecast for 1995 on December 14.

Meanwhile, the cost of servicing Germany's debt is set to increase, and Mr Waigel has warned that as of 1995 every fifth D-Mark spent by the Federal government will go towards debt servicing.

So far this year, the government has managed to scrape through its borrowing programme, aided by a strong cash position at the beginning of the year and a generous DM18.25bn contribution from the Bundesbank in April. Each year, the central bank transfers the bulk of its profits to the government, which uses the money to pay down existing debt.

However, Bonn's funding was dogged by the sell-off which devastated global bond markets this year and caused yields worldwide to soar. Amid nervous market conditions, the Bundesbank's decision in May to cancel a debt auction at very short notice sent shudders through a market fearing that the government was unable to raise the funds it needed.

In September, with 10-year yields close to their 7¾ per cent high, the government decided to issue a 10-year floating-rate bund pegged to the three-month Frankfurt inter-bank rate.

The issue met with disapproval from the Bundesbank, which for years has opposed money-market instruments on the grounds that they interfere with its monetary policy-making and foster a short-termist mentality among market participants.

This has turned the spotlight on an issue which has been the subject of heated debate for the last two years: will the German government eventually issue Treasury bills with maturities of less than one year?

For the last two years, a provision to issue up to DM50bn of such bills (dubbed Bu-Bills) has been included in the Federal budget, but as yet none has yet seen the light of day.

Following this year's approval of D-Mark money-market funds and amid prospects for rising short-term interest rates, investor demand for such instruments is likely to increase in 1995. However, while most sophisticated bond markets boast liquid yield curves ranging from one month to 30 years, Germany's maturity spectrum starts at one year and is most heavily weighted in the four- to 10-year sector, with a relatively illiquid 30-year sector.

The very short end of the German yield curve has largely remained underdeveloped due to resistance from the Bundesbank. Indeed, in August it announced it would stop issuing short-term bills, known as Bulis, for fear that they would fuel the growth of money market funds.

"We did not want to provide investment opportunities for money-market funds by issuing Bulis, thereby reinforcing [the trend towards] short-termism," Bundesbank vice president Johann Wilhelm Gaddum said recently. Moreover, "we have asked the Federal and state governments not to issue short-dated debt instruments," he said, explaining that increased short-termism in government financing would fuel economic short-termism generally. [Short-term financing] may create new business opportunities, but it does not contribute to the stability of the financial system," he said, warning of the increased interest-rate volatility and economic destabilisation which could follow.

The Bundesbank also appears to fear that if the government funds itself regularly at the short end of the yield curve, it will start exerting pressure on the central bank to keep short-term interest rates low.

However, despite the Bundesbank's opposition, many analysts say it may eventually have to bow to pressure from the Finance Ministry and the markets to issue Bu-Bills. Although the central bank advises the government on its funding, it is the Finance Ministry which makes the final decision on how to raise the money.

"The steeper the yield curve gets, the more favourable it will be for the government to issue short-dated debt," says Mr Holger Fahrinkrug, economist at UBS in Frankfurt. Indeed, locking in high debt servicing costs by issuing long-dated bonds would further increase the budget deficit. The 10-year benchmark bund currently yields around 7½ per cent, compared with 5¼ per cent for three-month money.

Some warn that, by issuing money market bills the government could incur a refinancing risk by having to roll over its bills every few months at possibly rising interest rates. However, over the long term, it is usually cheaper to raise short-term rather than long-term funds because yields curves tend to be upward sloping more often than being inverted, says Mr Rainer Back, head of fixed income research at Dresdner International Research Institute. "The market would like the government to offer a balanced mix of debt, ranging from three months to 30 years," he says.

Moreover, "it is in the interest of Frankfurt as a financial centre that we should be able to offer short-term bills to international investors," says Mr Hermann Remsperger, chief economist at BHF Bank. Moreover, he says that "if the amount of Bu-Bills in circulation were restricted to, say, DM20bn this could hardly be interpreted as veering towards short-termism."

Money market funds are another compelling reason for allowing money-market debt issuance. "Now that they exist, you can't un-invent them," says Ms Alison Cottrell, economist at Kidder Peabody in London.

"Given people want to invest in money market instruments, surely it's preferable to keep their savings in Germany and help them fund the deficit rather than pushing them into other countries which offer T-bills," she says.

Quentin Peel: an era ends, but German foreign policy stays cautious

Heavy burdens of history

When the last Russian troops marched past the giant Soviet war memorial in East Berlin last August, followed a week later by the beating of the retreat for the western allies, it marked more than the end of an era. It symbolised the recovery of sovereignty for a united Germany.

The two events to celebrate the final departure of the erstwhile troops of occupation – still too sensitive to be combined in a single ceremony, in spite of the end of the Cold War – drew a clear line under the post-war period. They also highlighted the fact that four years after unification, the debate on Germany's national identity, its national interests, and its proper international role, is still unresolved.

The calls for such a rethink are coming from all sides. At home, they have been made from left and right, from such distinguished figures of the past as former Chancellor Helmut Schmidt, as well as from the present generation of politicians, like Mr Wolfgang Schäuble, the parliamentary leader of the ruling Christian Democrats (CDU).

The international community, from US President Bill Clinton to Mr Boutros Boutros Ghali, the secretary-general of the United Nations, is also urging Europe's most powerful State to assume its full international responsibilities.

Given the importance of the issue, it is perhaps surprising that it did not play a larger role in this year's marathon election campaign. The whole theme of unification, its costs and domestic consequences, was paramount. Yet the foreign policy consequences failed to emerge as a cause of dispute.

One reason is no doubt because foreign policy has traditionally been an area of cross-party consensus, with the pursuit of unification its prime focus. The main parties of the political establishment – the Christian Democrats, Social Democrats and Free Democrats – have always agreed on the need for ever closer integration into the European union. It was seen as the other side of the coin to German unification, the essential reassurance for the rest of Europe that a unified Germany would be no threat. And it worked.

A second reason for the lack of real popular debate is the instinctive desire, which runs deep through the German population, for foreign policy initiatives to be cautious and reactive, not adventurous and pro-active. The devastating experience of Nazi rule and wartime defeat has left a deep suspicion of anything which might smack of German highhandedness, in spite of the stereotypes still peddled in parts of the foreign press. Hence the resistance to any serious discussion of the "national interest" in foreign policy.

In spite of all that, the discussion is well under way in the smoke-filled rooms of Bonn.

Inevitably, Europe is the dominant focus – but now with the opening of western Europe to the east quite as important an issue for German policymakers is the continuing integration of the European Union in the west. Germany is the one member of the EU which is equally committed to widening *and* deepening simultaneously, unlike the French, who are primarily interested in deepening, or the British, who really just want the widening.

In a key-note paper, *Reflections on European Policy*, published by the CDU group in the Bundestag in September, the rationale was clearly spelt out: "The only solution which will prevent a return to the unstable pre-war system, with Germany once again caught between East and West, is to integrate Germany's central and eastern European neighbours into the [west] European post-war system, and to establish a wide-ranging partnership between this system and Russia," it said. "Never again must there be a destabilising vacuum of power in central Europe."

It adds: "Germany has a fundamental interest both in widening the EU to the East, and in strengthening it through deepening. Indeed, deepening is a precondition for widening. Without such further internal strengthening, the Union would be unable to meet the enormous challenge of eastward expansion. It might fall apart, and once again become no more than a loose grouping of States unable to guarantee stability."

The latter is Germany's horror scenario – a weakening of the western institutions which have underpinned security and stability since 1945, just as eastern Europe is itself under enormous strain. For Chancellor Helmut Kohl, his absolute commitment to the cause of European integration has been a key factor in persuading him to stay in office at least until 1998. He intends to be a driving force for another big step towards European integration at the 1996 EU intergovernmental conference.

Russian soldiers in their last parade in Berlin on August 31, 1994: end of an era, but what comes next? Picture: Reuter

However, German policymakers are keen not to frighten their partners – not least the British – from the conference table. "Let us look for practical policies to resolve practical problems," says a senior German diplomat. The practical problems are jobs and competitiveness; peace and stability in Europe; and overcoming the divide between rich and poor, which threatens to engulf western Europe in a new wave of migration from both south and east. Then he argues that none of those problems can be resolved by the traditional nation-state: they require trans-national solutions.

Yet even if the European integration process is common ground, there are clear divisions in Germany about how it should proceed. There are also differences over how the opening to the east can be accomplished. And there is still disagreement over just what role Germany should be playing in the wider peace-keeping process on the world stage.

The Christian Democrat paper on Europe argued that a "hard core" of European integrationists, encompassing Germany, France and the Benelux countries, was inevitable, because only they would be able to join economic and monetary union (Emu) in 1999. Mr Klaus Kinkel, foreign minister, immediately rejected the idea as by implication, if not intention, too "exclusive".

Mr Kinkel, a Free Democrat, is also at loggerheads with Mr Volker Rühe, the minister of defence, who is urging rapid membership of Nato for Poland and the other central European states, but the clear exclusion of Russia. The foreign minister is far more concerned not to offend Moscow, nor to leave the defenceless Baltic republics isolated, by creating a new European divide on the Polish border.

As for the whole process of peace-keeping, Mr Rühe and the Christian Democrats are most concerned to give the Bundeswehr, the German armed forces, a new role by widespread participation in UN exercises, while both Mr Kinkel's FDP and the opposition Social Democrats (SPD) are more cautious. Each occasion will require the specific approval of the German Bundestag, and each time there will undoubtedly be a huge debate.

These are the issues which will continue to divide the political establishment as it seeks to define Germany's new role.

But in outline, perhaps, that role is already clear: Germany will be the swing power in Europe, involved in an eternal balancing act between east and west, seeking to reconcile and integrate.

It will do so with one hand still tied behind its back. For it will still be loath to lead, and merely seek to react to the initiatives of others.

■ GERMANS ABROAD

Foreign travel is a national obsession

Not even recession can staunch German *Wanderlust* – and its concomitant drain on the balance of payments. Indeed, as recent experience has shown, the depression of holiday prices by international economic decline, coupled with the apparently unwavering strength of the D-Mark, actively encourages efforts to escape to the sun, writes **CHRISTOPHER PARKES.**

Banks regularly issue exchange rate guides specifically aimed at trippers seeking the best value for their hard currency on quick getaway breaks. Popular newspapers printed excited reports during the summer when the Italian currency lost further ground and DM1 would buy L1,000 for the first time.

Despite the domestic slump which has brought real income cuts, rising taxes and unemployment, German spending on foreign travel is forecast to increase around 3 per cent this year to some DM64bn ($41bn). Although this implies stagnation in real terms after a real 3 per cent increase in 1993, when set against falling expenditure on all other personal and household goods and services, it serves to underscore the strength of the national drive to get away.

According to a new study by the Cologne-based IWD economics institute, the average west German family sets aside more than DM200 a month – almost a third of its leisure budget – for holidays. According to Dresdner Bank, a consumer poll in which people were asked which areas of spending they would find hardest to reduce found holidays ranked second only to the basics: food, rent and clothing.

The vacation may be sacrosanct, but it is becoming a considerable burden on the balance of payments. While the national travel account has been in deficit for almost 40 years, the gap between German spending abroad and foreign travellers' spending in Germany has increased 50 per cent since unification. While travel expenditure has risen from DM47.5bn to DM64bn, revenue income has barely budged, increasing a mere DM1bn since 1990 to an estimated DM18bn this year. As a result, last year's travel balance was a record DM46bn in the red.

The domestic industry has suffered from the effects of recession in neighbouring European countries as well as the daunting strength of the currency. Following a 10 per cent decline in 1993, the number of foreign guests staying in German hotels fell 3 per cent in the first half of this year.

But the domestic industry's most enduring disadvantage, according to officials at the government-funded DZT tourism promotion authority, is lack of marketing effort. France, which arguably has more natural holiday appeal than Germany, spends four times as much on generic promotion than the DZT's DM52m budget allows. Austria spends DM20m a year.

Earlier this year DZT's new management set about trying to correct "false ideas" about Germany as a holiday destination, targeting young foreign travellers likely to be drawn by musical and other popular cultural attractions. As its researches had shown, the average age of vacationing visitors was "well over 50," according to marketing chief Ms Eva-Marie Sternagel.

Surprisingly, however, Dresdner Bank data show that although revenue from foreign tourists in 1992 accounted for only 0.7 per cent of GDP, the absolute total of DM17.5bn was only a little behind that of Austria, and compared favourably with the UK's DM21bn.

Meanwhile, the industry's potential in the former GDR is only just being tested. Despite the natural attractions of the Baltic coast, the relatively low population density and newly-accessible cultural centres such as Leipzig and Dresden, the region has attracted hardly any visitors from neighbouring eastern European countries. They prefer to spend their hard currency in locations more exotic than a former communist state. Westerners, too, have been deterred by the lack of relatively good quality accommodation and complaints of over-high prices are common.

Although some 340,000 eastern jobs already depend directly or indirectly on tourism, the government estimates the industry needs a further DM6bn in private investment to raise hotel and guest-house bed density from its present level of around half that in the west. The heavy costs of rebuilding the basic infrastructure in the region, such as roads and railways, drains, water, power and telephone connections, has limited the volume of funds available for popular attractions such as sports and cultural facilities.

Meanwhile, the local inhabitants are quickly developing their western cousins' taste for travel, but lower earning power tends to limit their range. Favoured destinations include western Germany, Austria, Spain and Switzerland. As in the west, the average-income, four-member family reserves 14 per cent of its disposable income for leisure activities – an average of DM554 a month. Little more than DM100 of this is set aside for holidays – just enough to cover the average German travel agent's price of a two-week foreign holiday for one.

FINANCIAL TIMES SURVEY

WORLD NUCLEAR INDUSTRY

Monday November 21 1994

Fifty years after the first controlled nuclear chain reaction, the industry is still growing, but at a much slower pace than it would like. **Michael Smith** reports

Concern over lull in plant construction

Nuclear industry enthusiasts call it a breathing space. But many executives are concerned that the present lull in plant construction will be rather more permanent and that the frenetic building activity of the 1970s and, to a lesser extent the 1980s, will not be seen again in their lifetimes.

There is little chance of a revival this century and even nuclear power's more robust supporters would be hard pressed to predict with confidence a resurgence in the early decades of the next century.

Fifty years after the first controlled nuclear chain reaction, which made power generation possible, the industry is still growing, but at a much slower pace than it would like.

Latest estimates from the International Atomic Energy Agency are that the 2,100 Terrawatt hours of electricity produced from nuclear power worldwide will expand by between 11 and 13 per cent by the end of the century.

But that is against a background of a much faster expansion in demand for electricity which could see output growing by more than 20 per cent over the same period.

The 17.5 per cent market share enjoyed by nuclear last year is expected by the IAEA to be 13 per cent at worst by 2015 and 15 per cent at best.

What has gone wrong for an industry that once promised to provide the lion's share of the world's electricity?

The Three Mile Island and Chernobyl accidents have had a decisive effect on the public's thinking. Nor have recent nuclear proliferation scare stories, however unjustified they may have been, helped nuclear power's cause. But a large part of the problem is commercial and stems from the transformation of the electricity supply industries in countries throughout the world.

Monopolies are being dismantled, competition is being increased and, in some cases, ownership is being transferred from the public to the private sectors. The more commercially-minded, and in some cases smaller, utilities are adopting a more risk-averse approach.

They want technologies that have low capital costs and short lead times, and power stations that can be built with easy planning consent procedures. They also want plant that can be used flexibly.

None of this is conducive to nuclear power construction. Atomic power plants cannot be switched on and off with the ease of a gas or coal plant. They take longer to construct than gas, coal or oil-fired stations and are more expensive to build.

The problems are demonstrated by recent constructions in the UK. Sizewell B, the 1,200MW station about to be fully operational on the east coast of England, cost about £2bn to build and is coming on stream 13 years after a public inquiry was started into whether it should be built.

By contrast, PowerGen last year opened a 900MW gas-fired power plant at Killingholme, Humberside, less than four years after deciding to go ahead with it. The UK, with its access to North Sea gas, is a special case, but there are few countries where a new nuclear plant rather than a coal or gas plant would be built if the decision were based on short-term financial criteria.

The nuclear industry argues that taking what it sees as a purely market approach is dangerous. "It may be easy to leave nuclear energy aside in short-term policy but in doing so we endanger our planet's atmosphere, notably because of carbon dioxide and the greenhouse effect," says Mr Rémy Carle, deputy general manager of Electricité de France and chairman of the World Association of Nuclear Operators. Nuclear power stations emit virtually no carbon dioxide or sulphur.

The industry says the short-term approach also jeopardises the energy balance of the next century. "Today's energy resources will have to meet a massive increase in demand; a two-fold increase at some stage next century," says Mr Carle. "This is not possible without a significant contribution from nuclear energy."

Such arguments have most potency in south-east Asia either in countries where access to alternative sources of power are restricted, as in the case of Japan, or where the demand for electricity is likely to be high as economies burgeon, as in the case of China, South Korea and Taiwan. All of these countries are either building or hope to build nuclear power plants, and last year Asia had 14 reactors under construction, according to the IAEA.

Activity is also intense in eastern Europe, where last year there were six reactors under construction in the Ukraine, four in the Slovak Republic, four in Russia and five in Romania. In Latin America there were five reactors under construction last year, including one in Argentina and one in Brazil. India is building five reactors and Pakistan one.

The dearth areas for nuclear power construction include: the US, where no power station has been ordered since 1979 and plentiful supplies of gas mean none are likely in the near future; Australia, where no nuclear stations have been built and none are likely; Africa, where there are only two reactors on the whole continent, both in South Africa, and no more are planned; and western Europe where, with the UK's Sizewell B complete, only France is building stations and even it is close to the end of its programme, with four under construction.

All of this could change, in the medium term future at least, if prices of fossil fuels rise and environmental pressures increase the need to cut carbon and sulphur emissions.

But to stand a real chance of taking off again, the nuclear industry must make significant progress in three main areas: designing reactors which produce cheaper electricity, dealing with waste, and renovating dilapidated reactors.

Research into producing cheaper nuclear power will inevitably be held back while there are only limited prospects that the vast sums of money needed to fund it will be repaid through new orders. While there are still hopes of developing fast breeder reactors – once thought of as the salvation of the industry – there seems little likelihood that fast breeders will enter commercial operation before 2020.

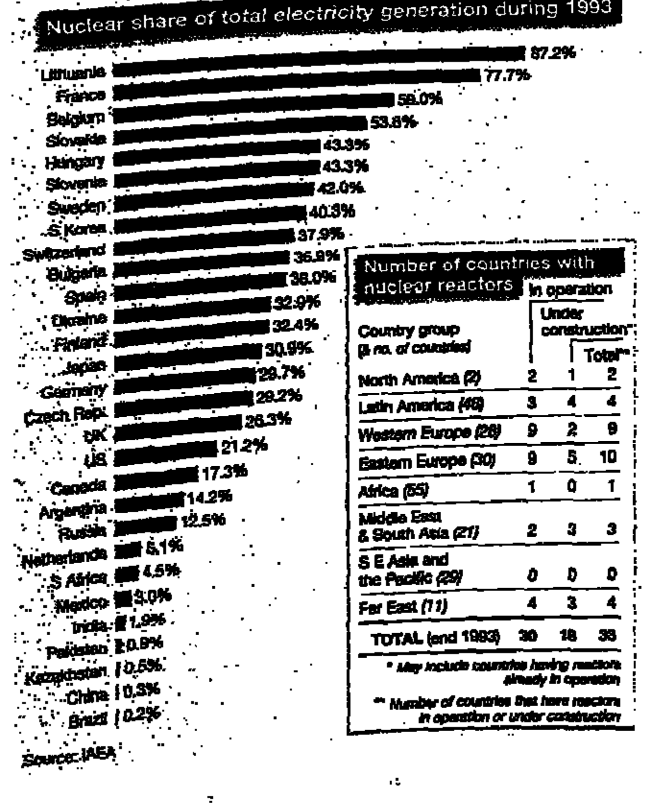
Nevertheless, practically all countries with nuclear power programmes are developing versions of existing plants which are aimed at cutting costs and improving safety.

Nuclear waste represents a thorny problem because the industry is often so dependent on governments for resolutions. This has been highlighted this year in the US where a coalition of state utilities and regulators have filed a suit accusing the Department of Energy of defaulting on its promise to take spent fuel. The search for a permanent nuclear waste dump has dragged on for years with little discernible progress and the utilities say the government is backing away from its requirement to take waste by 1998.

But the most pressing problem for the world nuclear industry is to help renovate the creaking reactors of eastern Europe. Considerable progress is being made with the help of aid and technological know-how but efforts are hampered by lack of resources. With most east European utilities still in the state sector and charging prices well below costs, there is little incentive for investors to provide funds.

Western scientists believe the most obvious root causes of the Chernobyl accident have been remedied in plants throughout eastern Europe. Nonetheless, they would prefer to see some operating reactors, including two at Chernobyl itself, closed down. Another significant accident may be unlikely but, if one did occur, a resurgence of the industry would be delayed for decades and possibly for ever.

Sizewell B's distinctive dome-shaped reactor containment building. The 1,200MW station, about to become fully operational, cost £2bn to build



Source: IAEA

Number of countries with nuclear reactors

Country group (& no. of countries)	In operation	Under construction*	Total**
North America (2)	2	1	2
Latin America (46)	3	4	4
Western Europe (28)	9	2	9
Eastern Europe (30)	9	5	10
Africa (55)	1	0	1
Middle East & South Asia (21)	2	3	3
S E Asia and the Pacific (29)	0	0	0
Far East (11)	4	3	4
TOTAL (end 1993)	30	18	33

* May include countries having reactors already in operation

** Number of countries that have reactors in operation or under construction

Clive Cookson on technology

Moving forward at a snail's pace

For several years nuclear technology has been moving forward at a snail's pace. Progress is painfully slow for those who remember how quickly new reactors were designed during the growth years in the 1950s, 1960s and early 1970s. It is also glacial when compared with other industries, not only fast-moving fields such as biotechnology and electronics but also competing energy technologies such as efficient gas-fired power plants.

Some of the reasons for the slow progress are obvious. After 15 years with few orders for new nuclear plants the industry has neither the funds to undertake research and development on a large scale nor the incentive to design new reactors.

So the main activity is gradual, incremental improvement of the long-established reactor designs – which is not something to quicken the heart of an enthusiastic young engineer. There is a morale problem in some nuclear research establishments, with an ageing workforce soldiering on to retirement.

The pressurised water reactor, designed originally in the US, dominates the international nuclear industry. PWRs represent 55 per cent of the world's operating nuclear reactors and generate 63 per cent of nuclear electricity. And the PWR features just as prominently in the industry's future plans. According to the Nuclear Industry Handbook 1994, published by Nuclear Engineering International, PWRs account for 74 of the 143 units planned or under construction (equivalent to 67 per cent of generating capacity).

The PWR pumps water under high pressure – to prevent boiling – to the generator, where steam is raised in a separate circuit.

The next most popular type is the PWR's closest cousin, the boiling water reactor. The BWR raises steam directly from the cooling water and therefore does not need a separate heat exchanger. Although the simpler circuitry reduces construction costs, this advantage is offset by the requirement for additional shielding since the circuit is susceptible to radioactive contamination.

Development of advanced BWRs for the late 1990s is continuing, particularly in Japan where five BWR units are under construction and four are planned.

> Europe's standardised advanced design is the 1,450MW European PWR (EPR) from Nuclear Power International

But development work in Europe and US is concentrated on advanced PWRs. These designs incorporate a range of "passive" or "inherent" safety features which are intended to reduce the risk of a catastrophic accident by an order of magnitude or more compared to existing reactors.

For example the power density of the core is reduced and the reactor is larger than earlier PWRs with the same output. And the new designs are simpler, more rugged and more forgiving of operator error and mechanical failure.

Europe's standardised advanced design is the 1,450MW European PWR (EPR) from Nuclear Power International, a partnership of France's Framatome and Germany's Siemens. The project timetable calls for sites for the first EPR units to be selected in 1997 and construction to begin in 1999, with commercial operation from 2005.

The US is developing two advanced PWRs with joint funding from the government and industry: the 1,350MW System 80+ from ABB Combustion Engineering and the 600MW AP600 from Westinghouse. With little immediate prospect of new orders from the US electricity supply industry, their commercial prospects probably depend on winning export business in Asia. Westinghouse, for example, set up an AP600 engineering centre in Indonesia this year to prepare for the design's introduction there.

The emphasis of advanced reactor research is more on winning public acceptability through inherent safety than reducing costs, because the industry remains convinced that in the long term it can win the economic competition with fossil fuels.

Development of gas-cooled reactors – the technology on which the British nuclear industry relied until a PWR was ordered for Sizewell B – has virtually stopped in the UK. But gas-cooled reactor research is continuing in the US and Russia.

The latest government-funded US project is the Gas Turbine-Modular Helium Reactor (GT-MHR) in which high-temperature helium coolant from the reactor drives a gas turbine directly, without the need for a steam generating circuit. It is claimed to be safe, simple and cheap to build and operate.

The GT-MHR is a candidate for burning surplus plutonium extracted from former Soviet nuclear warheads in a US-Russian joint venture. The reactor would generate electricity and produce energy for district heating.

Meanwhile R&D into fast breeder reactors – once seen as the inevitable next step for the nuclear industry – is running down worldwide. Substantial programmes still continue in France, Russia and Japan, but there seems to be little prospect that fast reactors will enter commercial operation within 20 years.

David Buchan reports on developments in France

Some challenges to be weathered

France's formidable nuclear industry seems so far to be weathering a number of challenges: the public debate over nuclear waste, the conundrum of the future of the Superphenix breeder reactor, and pressure from Brussels for liberalisation of the European energy market.

What had been billed as the big media event of the year turned out a relative flop. This was the march in April and May against the Balladur government's decision to re-start Superphenix as a research reactor. The march began on April 8 south of Lyon at Creys-Malville, the site of Superphenix, then wound east to take in part of Switzerland and Germany, then – a month later – ended in Paris with no more than 1,500 demonstrators.

It was a far cry from tens of thousands, some of them from Switzerland and Germany, who mobilised at Creys-Malville in the late 1970s against the building of Superphenix, and a disappointment to the Greens whose chief goal in the nuclear field had been to extend indefinitely the shut-down of Superphenix ordered in mid-1990.

Superphenix, built as the world's largest breeder reactor to produce electricity, has this autumn started a new life as a centre of research into the burning of plutonium and other waste. The plant, which cost about FFr27bn to build, must be the world's most expensive research reactor, but mothballing it was not cheap either. Running the plant as a research reactor will cost FFr100m a year, to be borne by the French Atomic Energy Commission (CEA) and Electricité de France (EdF), the state-owned utility which owns 51 per cent of the reactor, although they may reap some marginal benefit from sales of what electricity generates as a by-product.

Cogema, France's nuclear fuels agency, says that Superphenix's net consumption – or elimination – of 100kg of plutonium a year will be useful, but rather puny in relation to the 10 tonnes of plutonium that France's 56 reactors generate each year, along with nearly 80 per cent of the country's electricity supply.

Cogema opened a new reprocessing plant in La Hague in August, specifically to treat as much as 800 tonnes of EdF's nuclear waste each year.

This unit, named UP2, is akin to UP3 which started in 1990 and which is designed to serve Cogema's 27 foreign clients.

Mr Jean-Louis Ricaud, Cogema's head of reprocessing, claims that both French and foreigners have gained, because after having each paid out FFr 20bn for their own reprocessing unit, they have been able to split the FFr 20bn extra cost of installations common to the two reprocessing units.

For Cogema, as well as for British Nuclear Fuels, German utilities are an important customer, accounting for 15 per cent of the French agency's total business. However, as a result of a compromise earlier this year between the government and the opposition Social Democrats, German utilities are no longer required to reprocess their spent fuel, and now have the option of stocking it.

German utilities are financing the preparation of a disposal site in the Gorleben salt mines in Lower Saxony, but political objections have put this well behind schedule. This seems to be why Mr Ricaud says he is "extremely confident that La Hague even in 15 years time will have a full load".

Mr Ricaud, naturally, favours reprocessing rather than stocking spent fuel. "Stocking would be like leaving old cars lying by the roadside; reprocessing is like the sensible business of compressing all this spent steel into something useful". But even Cogema recognises that there is some waste – about 200 cubic metres of long-lived and highly radioactive material, enough to fill the average swimming pool – which cannot be re-used and which is just piling up in a temporary silo at La Hague.

The general idea is to bury this waste. The government has now chosen four possible underground sites, whose geology it is studying. In another year or so, it will select two of these sites in which to sink underground research laboratories costing costing some FFr1.5bn each.

Eventually, around the year 2006, it may decide on an eventual nuclear waste storage site.

EdF, as the world's largest nuclear power generator, is closely identified with the nuclear cause, but this does not tarnish its image, at least not at home. According to a Louis Harris poll last year, 80 per cent of French had "A good opinion" of EdF; not as high as France Telecom (84 per cent) but higher than Gaz de France (77 per cent) or Elf-Aquitaine (58 per cent).

The opening of electricity markets in Europe and around the world, particularly in fast-growing Asia, presents EdF with an enormous opportunity which it appears to be seizing with both hands. It now exports 12 per cent of its French-generated power to the UK, Switzerland, Italy, Germany, Spain and Portugal. And it is also investing abroad, in Argentina, Slovakia and most recently in Sweden.

At the same time, however, it has every intention of protecting its home patch, menaced by Brussels. The European Commission has threatened court action to get France and some others to drop their monopolies on the export and import of energy.

EdF is not worried about imports, given the competitiveness of its nuclear-generated electricity. It does not even mind too much about the introduction of some competitive bidding by suppliers. But EdF draws the line at "third party access" which would see an end to EdF's distribution monopoly.

It is this monopoly, says EdF, that gives it the ability to plan the heavy long-term investments so characteristic of the nuclear industry.

Frank Gray takes a look at Asia

Suppliers are flooding in

Western nuclear equipment suppliers, after years of non-growth in their own markets, are now flooding into Asia in search of fresh business that might arise from the region's rapidly expanding electricity supply industry.

The big news coming out of the region centres on Taiwan and the People's Republic of China – each of which is close to firming up big orders for large nuclear power complexes as part of their drive to diversify their electricity policies away from near-exclusive dependence on fossil fuels.

Mainland China is heading for a potential bonanza and has outlined plans to add 15 new nuclear plants between now and the first decade of the next century. They would have a combined capacity of at least 12,000MW, and most of the key components, such as reactors and turbines, would be imported.

In the past two years, China has commissioned its first three reactors, which have 2,100MW of capacity. They are the 1,800MW, two-unit complex at Daya Bay, north of Hong Kong, built by Framatome of France and the Anglo-French GEC-Alsthom. A third 300MW unit, built mainly with Chinese technology, is operating at Qinshan, south of Shanghai at a site being developed for a full family of reactors.

In recent weeks, Atomic Energy of Canada Ltd (AECL) signed an agreement to enter into detailed negotiations for the supply of a two-unit, 1,400MW complex at Qinshan. The proposal, if firmed up, is worth C$2.6bn. It follows a recent announcement by Framatome that it had won a FFr1.4bn contract to supply equipment for a second 300MW unit at Qinshan.

These units would be in addition to China's outline plan to add a series of large reactors in south-eastern China, not far from the Daya Bay complex. The units would provide long-term base-load capacity in one of the country's most rapidly industrialising regions.

The potential of the China market is tempered by concerns about its ability to fund such schemes, but no such worries surround the race to win at least $2bn in contracts to supply Taiwan with 2,300MW of nuclear capacity, to be installed at a new complex inside a national park on the northern tip of the island.

Mr Adrian M. T. Wang, vice-chairman of Taiwan's Atomic Energy Council, recently said that the contract to build the two-unit complex would be made before the end of January. Conspicuous bidders were Framatome and Siemens and a US-UK consortium of Westinghouse and Nuclear Electric. Mr Wang said that Taiwan had to accelerate its nuclear programme because of its huge, 93 per cent, dependence on imported energy.

Development of the site had been suspended several times since the mid-1980s because of environmental protest.

The units would add to Taiwan's existing nuclear capacity of 5,144MW; some 26 per cent of all installed power.

The nuclear issue has brought the two Chinas together on the issue of uranium supplies and storage. Taiwan recently agreed in principle to buy uranium concentrate from China in exchange for permission to store the island's nuclear waste at a remote site on the mainland.

Japan and South Korea, the number one and two countries in Asia in terms of nuclear capacity, both plan rapid expansion, and Indonesia is planning to begin its own nuclear power programme.

Mr. Djali Ahimsa, director-general of Indonesia's National Atomic Energy Agency, said recently that first tenders would be called next year for the supply of Indonesia's first nuclear units, which would be built at Mount Muria in north-central Java. The target date for completion was 2004, with more pairs of units being added regularly thereafter.

Indonesia's total capacity now was 10,000MW, but projections called for this to rise to 31,800MW by 2011. Nuclear plants would ease pressure arising from Indonesia's diminishing oil reserves and would free gas and coal for export.

After Japan, South Korea has the the world's most ambitious nuclear plant expansion programme. At present, Korea Electric Power operates nine reactors with a capacity of 7,616MW, about 36 per cent of total capacity. By 2006, it plans to have added another 14 units, with a capacity of 12,800MW, boosting nuclear's share of all electricity to 37.7 per cent of total capacity of 45,533MW. By 2031, plans call for a further 18,900MW of nuclear capacity to be added, by which time a total of 7,617MW will have been decommissioned.

Most reactors have been supplied by Westinghouse, Atomic Energy of Canada and Framatome, with Korea Heavy Industries increasingly developing its own reactor know-how.

Kepco officials are excited by the diplomatic breakthrough with the North, which will mean the installation of 2,000MW of nuclear capacity under western supervision in exchange for Pyongyang's decision to scrap its obsolescent – but potentially lethal – graphite-moderated reactors.

In Japan, there is more than 30,000MW of nuclear capacity in operation, but the country's private sector power utilities are falling well behind the government's proposed schedule to add a further 40,000MW by 2010.

The Ministry of International Trade and Industry (Miti) says the time needed to negotiate site acquisition, obtain government and local approval, and construct a nuclear plant is now beyond an acceptable level. It hopes Japan's nine power utilities will build and start operating at least 15 new reactors by 2010, but it foresees this target as difficult to achieve under present socio-political conditions.

The leading utilities, led by Tokyo Electric Power Co. (Tepco) are sourcing the most important nuclear components domestically, under licence from GE and Westinghouse. GE is also a leading constructor in its own right, and is in joint venture with Toshiba and Hitachi to install 2,600MW of capacity at Tepco's Kashiwazaki-Kariwa nuclear power stations, which will open in two phases in 1996-97.

Frank Gray edits Power in Asia, a Financial Times newsletter

Michael Smith examines the UK industry

Review will reveal all

It is just conceivable that the UK nuclear power industry could be on the brink of a glorious era in which the industry will be transferred into the private sector and than expanded significantly. But few people are betting on it.

All will become clear when the government announces the conclusions of its long-awaited review into the industry in the next few months. The review could provide the framework for the industry for years, possibly decades, to come.

The two main generators, Nuclear Electric and Scottish Nuclear, are pushing hard both for privatisation and for the ability to build new power stations. But they are struggling to get their arguments accepted.

It is, after all, just five years since the government was persuaded that investors would not buy nuclear power stations from the state. Ministers promptly pulled the sale of the nuclear stations from the privatisation of the rest of the power industry, imposed a moratorium on the building of new stations and promised the review which is now under way.

The nuclear industry has used the time well, achieving significant increases in efficiency.

Since 1989, Nuclear Electric has managed to raise its share of the electricity market in England and Wales from 16 per cent to almost 25 per cent. This sharp improvement has been largely due to its success in overcoming technical difficulties with its five advanced gas-cooled reactor stations that were built in the 1970s. From having been among the worst performing nuclear stations in the world, the AGRs are now among the best.

Scottish Nuclear has also made impressive strides, achieving a 40 per cent increase in output since 1989 and 50 per cent improvement in productivity.

In spite of the improved efficiency, the industry is struggling to shake off its critics' claims that it is uncompetitive. The main problem is the existence of nuclear levy, through which £1bn a year is raised from domestic power consumers in England and Wales every year for the nuclear power industry. Nuclear Electric argues that the levy is to pay from liabilities it inherited from the Central Electricity Generating Board, its fore-runner, but the government is less precise about its purpose.

The nuclear industry's opponents say it is a subsidy. They feel they are on even firmer ground over the costs of building Sizewell C, the 2,500MW power station planned for the Suffolk, England, coast. This is planned by the nuclear industry as what it hopes will be the first in a series of new plants.

N. M. Rothschild, the merchant bank advising Nuclear Electric, is working on the possibility that it may be possible to build a nuclear power station entirely with private sector finance.

Rothschild has yet to make its findings public but the City of London will take some convincing. Investors were sceptical enough about Nuclear Electric's claim in June that it could produce electricity from the 2,500MW Sizewell C at 3.7p a unit.

This was based on the assumptions that the station could be built for £3.5bn, its operating efficiency would be 85 per cent and that the private sector would demand an 11 per cent return on capital invested. Critics say all of these claims are highly optimistic. But assuming 3.7p is achievable, it is still considerably higher than the average price of 2.4p this year in the electricity wholesale trading pool to which the new station would have to sell its power.

The pool price will rise by the early years of the next century but not necessarily to 3.7p. The gap could be bridged if the government was prepared to provide a subsidy, perhaps as much as £1m. But for Sizewell C to go ahead, the government would also have to provide guarantees against future regulatory change or decommissioning problems.

It felt unable to give such undertakings in 1989, but since then the environmental arguments in favour of nuclear power have increased.

There is more international pressure to cut sulphur and carbon dioxide emissions.

But nuclear power's opponents in the gas and coal industries could argue that providing state aid for nuclear power, whether through direct subsidy or underwriting the industry for regulatory change, would be a clear distortion in an energy market which ministers want to be fully competitive. This will prove a telling point in the review.

Even more persuasive is the government's lack of funds and the argument that the UK does not need any more power stations in an over-supplied market.

The Treasury backs nuclear power privatisation both for financial and ideological reasons.

The two nuclear companies have suggested an industry structure which could make privatisation possible. Under this the older Magnox stations, which have large liabilities, would remain in the public sector, leaving the advanced gas-cooled reactors and Nuclear Electric's pressurised water reactor Sizewell B, to be sold off.

Prof Stephen Littlechild, electricity industry regulator, wants more radical restructuring and has suggested that Nuclear Electric and Scottish Nuclear swap some of their assets. This is not appealing to the generators, although they welcome his support for privatisation.

For all this, political considerations make it unlikely that the government will want to plunge into a privatisation.

Some Conservative politicians will argue that selling the nuclear power industry would enable the government to keep the privatisation bandwagon rolling. But most consider nuclear power far too controversial an issue to bring to the fore in the run-up to a general election.

The review is therefore likely to attempt to prepare the ground for nuclear privatisation after the next general election which is scheduled for 1997 at the latest. Privatisation, while winning the general approval of the government, is probably still some years off, and if the Labour party wins the next election it may never happen.

Bronwen Maddox takes a look at the industry's safety record

Valiant efforts eradicated

There is widespread public perception across much of the industrialised world that the nuclear industry is *unsafe*. Some of this may have derived originally from the industry's origins in the second world war's race for the bomb. But the industry's valiant efforts over decades to disassociate civil uses of nuclear energy from military ones in the public mind was eradicated in 1986 by another event *equally* disastrous to its image: the explosion at the Chernobyl reactor in Ukraine.

The industry internationally – and for these purposes, national companies are surprisingly adept at acting in concert – argues vigorously that Chernobyl was a one-off event. The Nuclear Energy Agency of the Organisation for Economic Co-operation and Development points out that it "occurred on a reactor of unique Soviet design and with operating practices that would not have been tolerated in the west".

Industry executives add that the Windscale accident in the UK in the 1950s and the Three Mile Island incident in the US in 1979 did not cause deaths through radiation emissions.

They have devoted pages of reports and millions of pounds to arguing, in the words of the Nuclear Energy Agency, that "*it* is possible with a sufficiently high standard of safety *to contain* a potentially very dangerous process".

In studying *how to contain* that process, the nuclear industry in western countries and Japan has spent much time on improving the reliability of the pressure vessels and pipework of the main circuits of a reactor, particularly that for containing the reactor coolant.

In pressurised water reactors, much work has also been devoted to strengthening the tubes of steam generators. The NEA reports that "since the early 1970s, operators of many PWRs around the world have found it necessary to undertake much more plugging of steam generator tubes than expected" because of corrosion and cracking.

Regulators' reports also repeatedly refer to the importance of *training, citing human* error as the greatest risk in a modern reactor.

But how far should this process of refinement be pursued? What counts as safe? Difficult political and economic decisions, such as the lifespan of Britain's ageing Magnox reactors, depend on the answer. The answer to whether that is "safe enough" lies not in science or engineering but in politics: on the degree of risk which the public will tolerate.

That brings the issue back to the question of the public image of the industry. The *UK* government's Health and *Safety Executive suggests* that safety standards in future nuclear plants should be *set* so that the risk to a member of the public is at least 10 times less than that of a traffic accident. As the HSE points out, though, however much time the nuclear industry devotes to educating the public that the risk is low compared to that from some other industries – and compared to that from activities such as riding a motorcycle – it faces deep, probably immutable, prejudices.

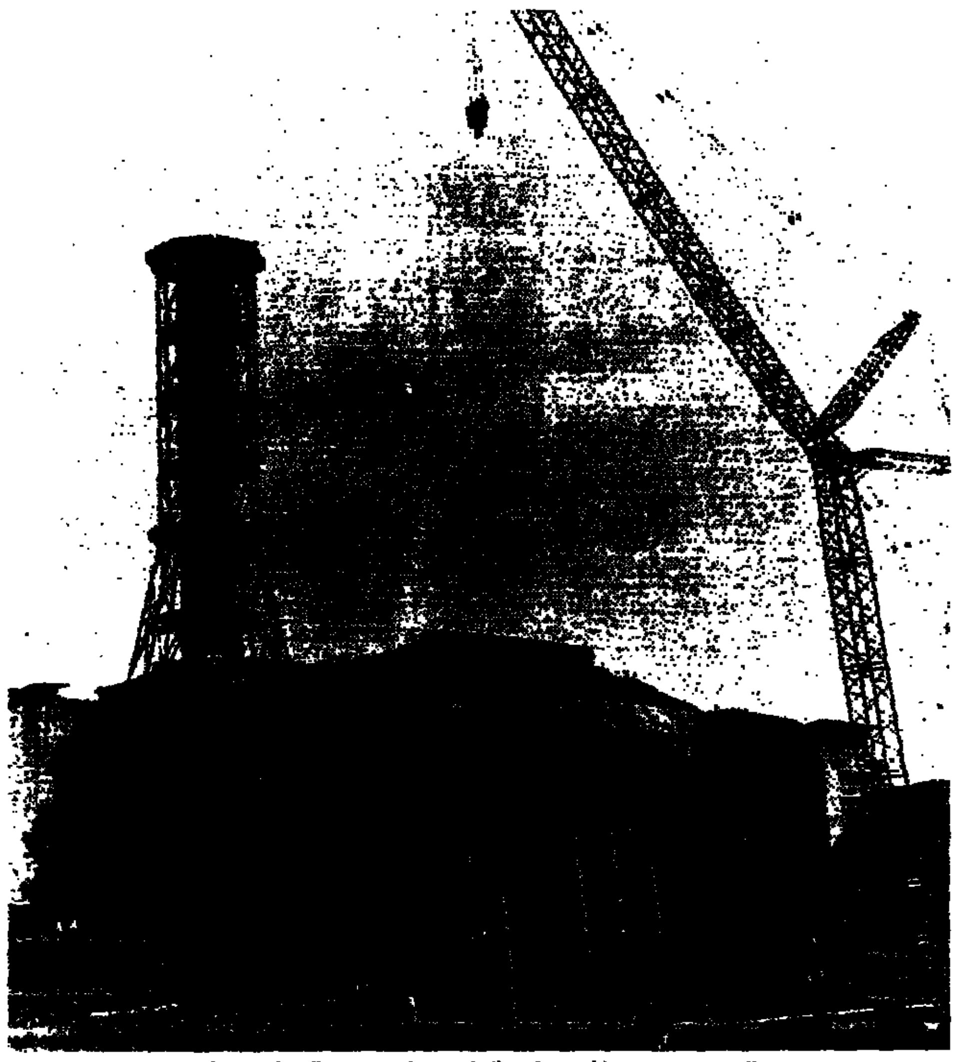
People will tolerate much *more risk from something* they choose to do, such *as horse-riding,* than they will from events beyond their control, the HSE *comments*. Moreover, repeated surveys show that many people would rather die of almost anything than of radiation from a nuclear accident.

In those efforts to persuade the public and politicians of its virtues, the nuclear industry industry faces two other problems on which it also has little influence. The *first* is that much civil nuclear power around the world is closely associated with military uses – sometimes *it* occupies the same site. Despite the industry's emphatic arguments that each reactor does not represent a bomb, it has few tools to counter public suspicion, given the secrecy that surrounds military programmes in even the most open societies.

The second hazard the industry faces is that of an accident at one of the 58 crumbling eastern European and former Soviet reactors. If there is going to be another Chernobyl, the odds are greatest that it will be here.

That gives nuclear companies operating to high standards a tough problem. In the west, they are facing a battle *to justify their existence*, both with government treasuries and with *environmentalists*. They have to reassure those audiences *that* nuclear *power* can be safe and cheap. At the same time they must stir up enough concern – among the same people – about the perilous state of eastern reactors to persuade them to spend more money quickly on repairs.

Even industries which have proved skilful at handling their public image would find that juggling match difficult. Nuclear operators, which frequently have an unwieldy and suspicious culture deriving from state ownership, may find that the task of reassuring the outside world is never-ending.



Chernobyl: the industry internationally argues vigorously that the accident was a one-off event — *Picture: UPPA*

CIVIL AND MILITARY LINKS

Serious threat of bomb-making

North Korea's controversial nuclear programme *is the* most recent demonstration that civil nuclear power *is not* as far divorced from military applications as its *supporters* like to pretend. And the fact that the US and South Korea are prepared to supply North Korea with water-cooled reactor technology worth $2bn to stop its existing graphite reactor programme shows just how seriously the threat of the transfer between civil and military nuclear reactors is being taken.

The reason why is simple enough. For a would-be nuclear weapons state, the hardest part of making an atomic bomb is getting enough of the right sort of plutonium or uranium. The easiest place to get hold of the right sort of plutonium is from the right sort of nuclear reactor.

For a relatively unsophisticated country the right kind of reactor uses natural uranium, which is reasonably easily available, surrounded by graphite. If the reactor is operated for several months, two important nuclear processes occur. The first is the splitting of uranium, which releases the energy to produce power, and the second is the conversion of the natural form of uranium which is not explosive into a form of plutonium which is. North Korea's nuclear reactors are of this graphite type and bear a strong similarity to those which were originally used in the US for plutonium production. Once the uranium in the reactor has been used for several months it is taken out and the bomb-making plutonium can be chemically separated. Whether the reactor is being used to make electricity or plutonium is partly a semantic distinction because the reactor is doing both.

However, if the uranium is left in the reactor for more than a few months the explosive type of uranium is itself converted by the intense radiation into a much less explosive form. For efficient bomb material the optimum period in a reactor is about six months.

More advanced western reactors use water *instead of gas* to cool them. Unfortunately, the water coolant *slows down* the reaction and so natural uranium, which *contains only* 1 per cent of the type which will split to release energy, has to be beefed up to about 4 per cent of *the* reactive type.

This "enrichment" is difficult and expensive, and is one reason why beginners, such as *the UK in* the 1950s with the Magnox reactors, tend to *choose* graphite reactors cooled by gas.

Because the enriched fuel for water reactors is so much more expensive it has to be used for much longer in the *reactor* to make it cost-effective. Using the fuel in the reactor *for* two or three years means that it contains a lot of *the* unreactive form of plutonium and makes it much *harder*, although not impossible, to detonate.

Water reactors also take longer to shut down, refuel, and *restart*, *making* them easier to monitor by arms inspectors.

For *these* reasons the US negotiators have been trying to wean the *North* Koreans off their hard-to-monitor plutonium-producing *graphite* cores towards more controllable pressured water reactors. One problem for the US negotiators is that their offer *may be* seen as giving in to blackmail. Indeed, there is one *school* of *thought* which suggests that the North Koreans *never* intended to make a nuclear weapon, but wanted to squeeze civil power *stations* from the west.

Even if there are no further similar incidents, the operation of civil nuclear reactors around the world does pose a *military problem*. Large amounts of plutonium are produced, *even in water-cooled* reactors. While much of this *would be difficult to detonate*, it is not impossible, and as it *is highly toxic it also presents* a significant chemical threat in the hands of terrorists or renegade states.

That genie is already partly out of the bottle because hundreds of tonnes of plutonium have already been separated or "reprocessed" from used reactor fuel. Some of it is explicitly for weapons and other lower-grade stocks for possible use in fast breeder reactors: a technology which has now been shelved.

Protecting that plutonium in store is a hard enough task in the west, where standards of accounting for nuclear stocks have in the past been lax. Even last year, Mrs Hazel O'Leary, the US energy secretary, had to correct a figure for US plutonium stocks by 1½ tonnes – enough for 150 nuclear weapons – because of accounting errors.

A full register of fissile materials does not exist and not even individual countries know exactly how much plutonium and uranium they have or where it all is. The problem is even worse in Russia where there are concerns that fissile materials stores are not secure.

> Preventing the spread of potential bomb materials is difficult – and is being *made more so*

Against that background, preventing the spread of potential bomb materials is difficult – and is being made more so by the reprocessing of further fuel from civil reactors, and the *dismantling* of nuclear weapons. The plutonium is not needed *for civil* purposes and even the proposed *mixed-oxide fuels to* burn the plutonium are only a temporary *palliative which* will generate more plutonium.

In the view *of* some in the nuclear industry, developed countries *must produce better* and more open nuclear *accountancy methods*. This would reassure non-nuclear weapons states that stockpiles were under control, and the *system* could be passed on to developing countries to help them account for their civil nuclear programmes.

The further reprocessing of fuel also looks questionable under these conditions, because it separates more plutonium which needs safe storage. "What could be better than storing this plutonium in its original *fuel* rods, *still* mixed with the highly radioactive fission *products which* would kill anyone who tried to *steal it?" said one former* nuclear executive.

Another engineer still in the nuclear industry said: "I prefer *to keep the waste* as solids in the fuel pins, rather than *separated* out with some as highly radioactive liquids *which* are difficult to contain."

Such views about the control *of fissile* materials to keep the barriers between civil and military power are particularly important in the run-up to the *conference* on extending the nuclear non-proliferation *treaty* next year. So far, the objections of non-weapons *states* are that the weapons *states* have not done enough to *disarm or* control their fissile stockpiles.

Their main anger has, however, been directed at the failure to agree a *test* ban treaty, so that weapons states can continue *to develop* more and more sophisticated bombs. Sooner or *later though*, the debate will switch to the links between civil and *military* applications, and the control of fissile materials *stocks*.

Bernard Gray

WORLD NUCLEAR INDUSTRY IV

GEC Alsthom's engineering systems group at Whetstone near Leicester has a long association with the nuclear industry, as the former home of some of the manufacturers of the UK's old Magnox power stations.

In the modern era, with nuclear power station building in decline or non-existent in the UK and many other countries, the focus of the Anglo-French engineering group's nuclear activities is changing. But it is still achieving considerable success, albeit in ways that might not have been envisaged 20 or 30 years ago.

Over the past few years, the bulk of GEC Alsthom's nuclear activities have been brought together within the engineering systems group, whose managing director is Mr Martin Melling.

The main exception is the production of large steam turbines that form the conventional "turbine island" of nuclear stations. These are made by GEC Alsthom's electromechanical division. GEC itself still retains NNC (National Nuclear Corporation), which is known mainly for designing and building nuclear power stations but is moving increasingly into the servicing and maintenance side of the business.

It is a world leader in the design and supply of plant, systems and equipment for the industry

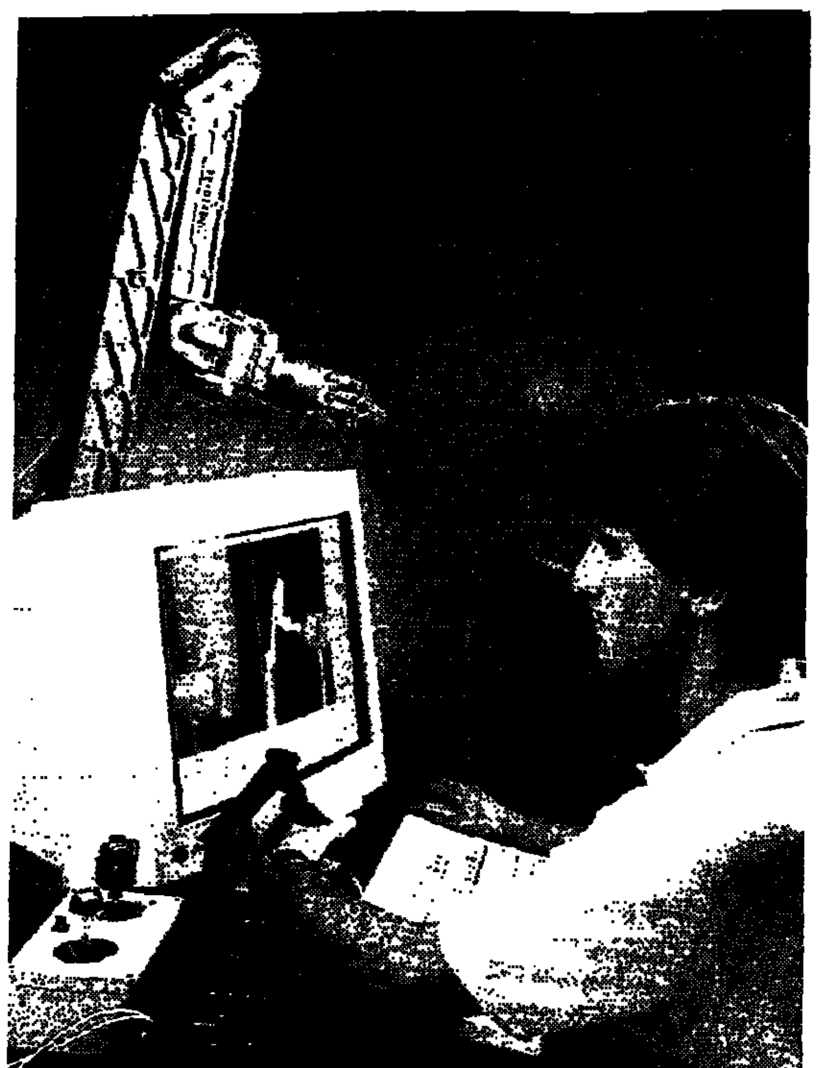
Mr Melling's group employs some 2,300 people of which 1,450 work in the UK. He estimates that just over half the group workforce is engaged in nuclear activities – at Whetstone, at a similar but smaller facility in Grenoble, and at the recently acquired Schilling Development, a California-based specialist producer of robotics handling equipment.

With the exception of the reactor pressure vessels themselves, which GEC Alsthom does not make, its nuclear presence is one of the industry's most wide-ranging.

It is a world leader in the design and supply of plant, systems and equipment for the nuclear industry, and undertakes a complete range of contracts from preliminary design studies to turnkey projects. Worldwide, it has more than 25 years of experience on PWR installations in Europe and the Far East.

As for growth prospects, Mr Melling divides his group's nuclear activities into four. The PWR activity is declining, and as supplier of equipment into the reactor island, rather than the main elements of the reactor, GEC Alsthom faces intense competition in markets such as Asia, where local content is often obligatory.

There is a stable business in refurbishment and modernisation, however, and in the area of servicing and maintenance. A good future is seen in outage management, where contractors have to perform maintenance or refurbishment during a fixed "outage" of the plant or part of it, although this is also



Recently acquired: Schilling Development advanced telerobotic control, the Titan Manipulator

Profile: GEC Alsthom

Long association with the industry

highly competitive. Inevitably, the leading players in the nuclear industry have all moved into this arena as markets for new plants have dried up.

Then come two growth areas where Mr Melling believes GEC Alsthom has something unique to offer. The first is in dry storage of used fuel, as a way to postpone reprocessing or as an alternative to it. Over the past 15 years GEC Alsthom has developed technology that can handle used fuel from both PWR and AWR reactors.

As the UK's policy was for reprocessing, the company identified the US in the late 1980s as good potential market for its modular vault dry store (MVDS), winning an order in 1989 to build an MVDS at Fort St. Vrain, Colorado, where the nuclear station was being decommissioned.

"This was a breakthrough in selling to the US and in validating the MVDS concept internationally," says Mr Melling. Another important deal was signed in 1992, to provide a spent nuclear fuel store for the Paks nuclear station in Hungary. Paks supplies 40 per cent of the country's electricity and was looking for ways to store its spent fuel, most of which had formerly gone to the old Soviet Union.

GEC Alsthom is marketing the system worldwide, exploring opportunities from eastern Europe to South Africa. In the UK, GEC Alsthom has since 1990 been discussing with Scottish Nuclear an application of the system for AGR fuel. A Government decision is awaited which would allow the scheme to go ahead, involving dry stores at Torness and at Hunterston.

The second growth opportunity seen by Mr Melling is the related one of general waste management. "There is a big market for technology that can supply solutions to the problem of the safe handling of nuclear waste," he says.

The company aims both to sell systems and individual products in this sector, where the expertise of Schilling is especially relevant. Again, the US is marked out as a growth area.

The other side of GEC Alsthom's nuclear-related business is the "conventional" end. The company, or its antecedents GEC and Alsthom, have supplied 20 per cent of the steam turbines and generators used in the world's nuclear stations.

Formerly, GEC depended heavily on the UK market, and GEC Alsthom had to make big cuts in its manufacturing base in the early 1990s after the UK nuclear station programme was shelved – a victim of the "dash for gas" that spawned a big development of combined cycle stations.

The key to success in China will be the development of partnerships

Alsthom, meanwhile, was a big supplier to Electricité de France, and GEC Alsthom is supplying two 1,500MW steam turbine generators to both the Chooz and Civaux nuclear stations in France. The company still has about 1,000 people engaged in nuclear-related turbine and generator work, at Rugby in the UK and Belfort in France.

With the slowdown in the French nuclear programme, GEC Alsthom is looking to export markets, where both its parents had made considerable inroads. The two 1,000MW steam turbines supplied by GEC to the Daya Bay nuclear station in China have put GEC Alsthom in a good position to win further business there, says Mr Michael Barrett, managing director of the electromechanical division's steam turbine business.

The key to success in China, and to varying extents in other Asian markets for nuclear power, will be the development of partnerships to meet local content requirements. GEC Alsthom is one of the few companies in the world with the capability to build the large steam turbines used in nuclear stations, and will hope to use its expertise to help the Chinese build them, says Mr Barrett. It already has a collaboration agreement in China, and is hoping to develop this further.

Andrew Baxter

Bronwen Maddox looks at waste disposal

Shortage of options

Where to store nuclear waste: that is perhaps the most difficult question the nuclear industry must answer in making a case for itself. Environmentalists focus on it, seeing it as the weak link in any argument for nuclear power; they argue that it is immoral to leave a form of pollution which will persist for tens of thousands of years for future generations to solve.

The nuclear industry has traditionally countered this stance by pointing out that nuclear waste can be neatly contained in barrels, unlike atmospheric pollution from burning fossil fuels, a rival source of energy. But where should the barrels be stored? That question has not yet been answered conclusively.

The big new factor is the Asian embrace of civil nuclear power

There is some urgency in finding solutions. Even though civil nuclear programmes are on hold in many western countries which were previously enthusiastic – notably in Germany, the US and Britain – the operation of existing reactors continues to generate waste which needs disposal. Moreover, the eventual dismantling of the reactors will produce large volumes of waste, from lightly-contaminated concrete hulks to intensely-radioactive reactor rods. Some countries, such as Britain, also have nuclear submarines which need to be scrapped.

But pressure from public and environmentalists is narrowing the range of disposal routes. Under amendments in the past two years to international conventions on marine pollution, the option of disposing of even low-level radioactive waste at sea has been suspended for at least a decade. That leaves a variety of land-based techniques, but despite their investigation by many different countries, there is no agreement about the best option.

A decade ago, it seemed that reprocessing used or "spent" nuclear fuel would be the ideal. Reprocessing extracts reusable uranium and plutonium from fuel rods, leaving a much smaller volume of waste. The UK and France, with large civil programmes, began years ago to invest heavily in reprocessing capacity. However, since then the price of uranium has fallen sharply. Concern has also grown internationally that the greater the amount of plutonium created, the more likely that some is diverted to bomb-making.

Other storage options are cheaper, many have argued, but bring their own political and technical problems. The UK and Germany have investigated permanent deep storage – depositing the waste hundreds of metres underground – at Sellafield in Cumbria and at the Gorleben salt mines. This option is likely to be cheaper than storage on the surface because it needs little surveillance and is secure from terrorist attack.

It also has political attractions – it appears to offer a permanent solution rather than leaving it for future generations. But in Germany, controversy over the choice of location has widened into an impassioned row about the future of the nuclear power industry, which has stalled development of the site.

There are also considerable geological problems: it is hard to find a site without fissures or water seepage which will contain the waste safely for the next 10,000 years. Such considerations have already prolonged the investigations of UK Nirex, the company charged by the UK government with finding a deep disposal site for low-level and intermediate-level radioactive waste.

Such concerns lead many environmentalists, such as the pressure group Greenpeace, to back the option of storing waste on the surface. This route is more expensive, but does allow the waste to be closely monitored, and keeps permanent disposal options open.

Others, such as Scottish Nuclear, one of the two UK nuclear generators, favour a hybrid of the two techniques for accommodating highly radioactive waste. Scottish Nuclear has vigorously backed "dry storage" for spent fuel: keeping used fuel rods on the surface surrounded by inert gas for 50 years until the radioactive content and heat fall to a point where the rods can be stored underground.

Those debates, in which political, economic and scientific considerations are enmeshed together, are far from resolved. Indeed, in several western countries a stalemate has been reached.

The only route forwards which appears to be acceptable to western publics is to put nuclear waste on sites already occupied by nuclear installations – Sellafield is a case in point.

If countries cannot resolve the debate about location domestically, they may investigate whether other countries will accept their waste, or at least store it temporarily while processing it into a different form. British Nuclear Fuels, owner of the UK's Thorp reprocessing plant in Sellafield, has made no secret of its opinion that the UK should capitalise on its expertise in handling nuclear waste.

The new factor which could ease such stalemates in the west, however, is the Asian embrace of civil nuclear power. Asia is beginning to produce large volumes of waste and the next two decades will see the different techniques for treatment and disposal vigorously explored and refined. That may allow western governments and nuclear industries, from a vantage point uncomplicated by domestic politics, to make a more thorough assessment of the answer to nuclear power's trickiest problem.